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JUNE 15 • 2015 EDITION

Forbes

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ON THE COVER

COVER PHOTOGRAPH
BY JAMEL TOPPIN FOR FORBES

MAKEUP BY LAUREN ANDERSEN FOR AVON AT THE WALL GROUP
HAIR BY RENATO CAMPORA USING ORIBE HAIRCARE FOR THE WALL GROUP
WARDROBE STYLING BY EMILY CURRENT AND MERITT ELLIOTT FOR THE WALL GROUP

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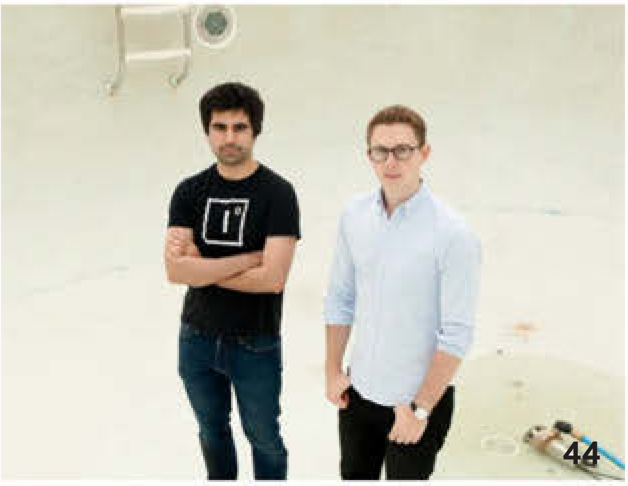

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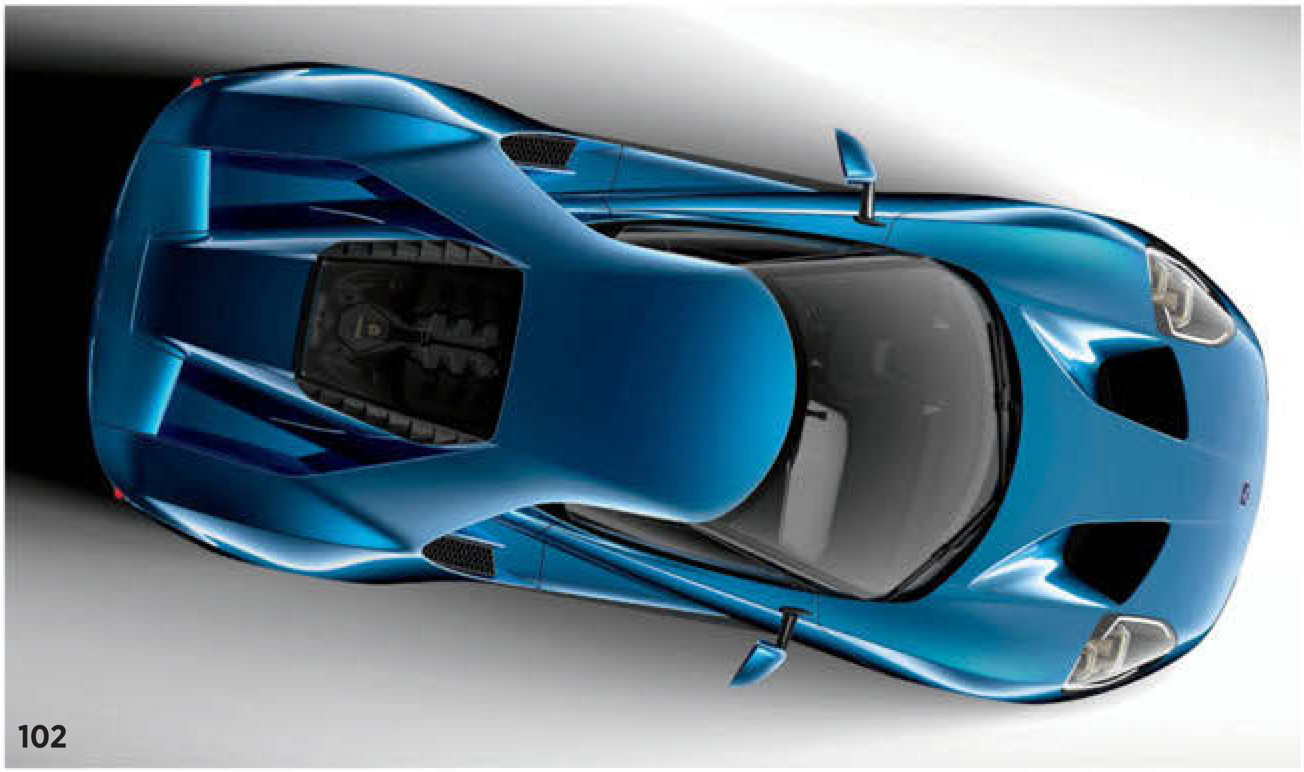

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IN BRIEF

Finding Success The Hard Way

BY LEWIS D'VORKIN

I'm off to Paris soon for a round of sales calls (it's a tough job, but someone has to do it), and I expect lots of questions about Facebook's newest product, Instant Articles. Media pros gnashed their teeth for months awaiting its arrival. Finally, a few high-profile publishers signed on, agreeing to post a limited number of stories on the social network rather than rely solely on outbound links to their sites. In my best French accent, I'll respond to the quizzical this way: *Plus ça change*. In other words, the more things change the more they stay the same.

Why would I say that? Firsthand experience:

AOL: I joined the portal in 2000 and watched as publishers battled—and frequently paid—to be "anchor tenants" in hopes of attracting digital "eyeballs." Interests were never aligned, so traffic proved fleeting.

Paywalls: Failing to monetize those eyeballs with premium ad inventory, the same publishers fantasized about getting passersby to sign up for digital subscriptions. Very few pulled it off.

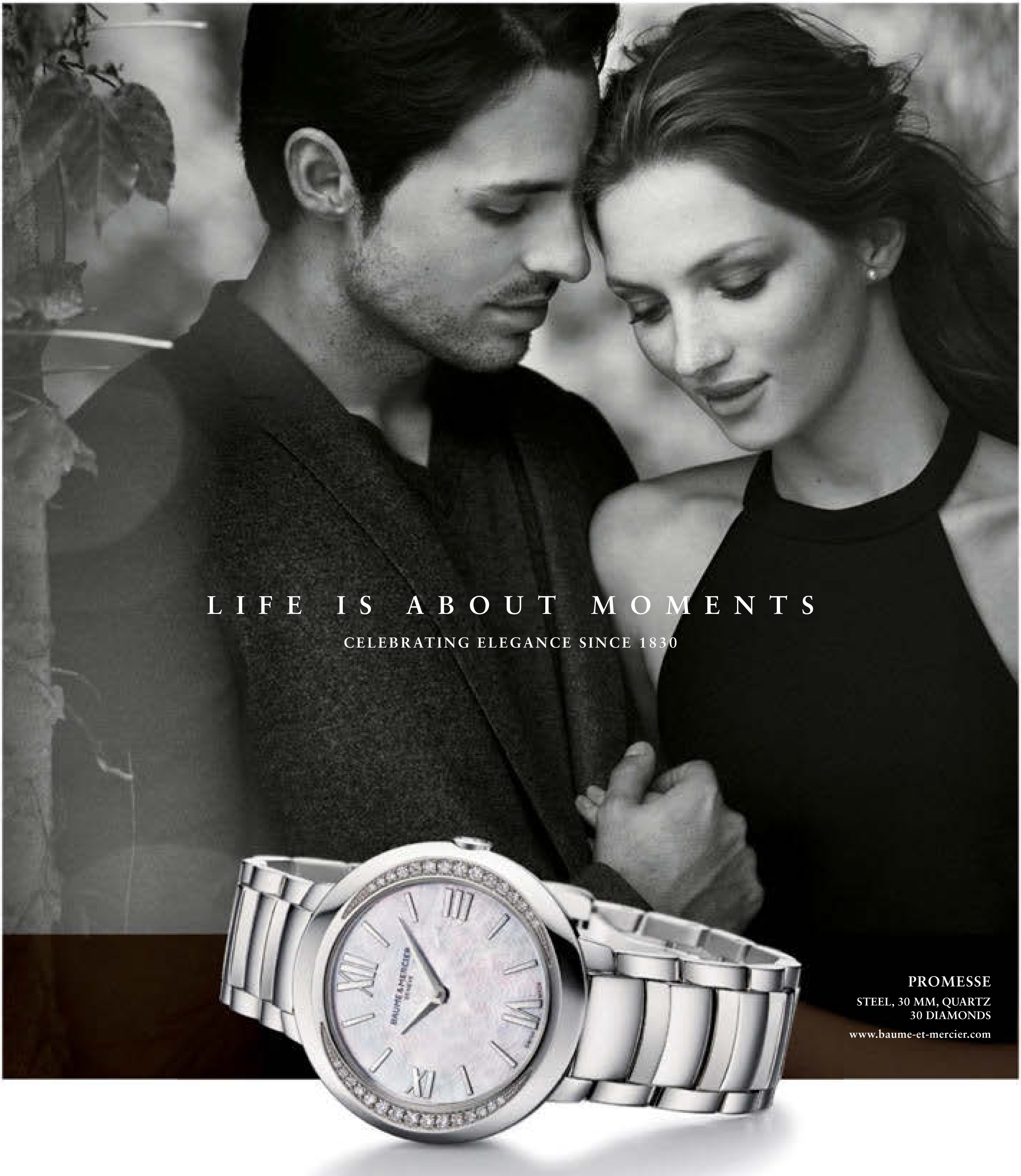
iPad: In Rupert Murdoch's Fifth Avenue apartment for the launch of The Daily (now defunct), I could see publishers dreaming that the iPad would spur circulation. The result: lots of downloads, limited usage.

Mobile apps: With handheld devices surging, the news media saw a distribution play. Never mind that the only news apps that work offer one-stop utility (think weather and traffic) or community.

Faced with disruption, publisher after publisher practiced reinvention without reinvention, hoping the genius of others would bail them out. That strategy hasn't worked out so well.

FORBES looked inward, then set out to chart its own course—with a long way still to go. Sure, we'd be happy to put up Instant Articles on Facebook. Who's going to turn their back on a billion people? But we've spent the last five years doing the things that truly matter. We changed our content, labor and advertising models, creating some disruption of our own. We listened to the audience. It wanted authentic, passionate storytelling. We listened to marketers—what they'd pay and what they'd pay for. It required efficient content creation and new ad formats.

I have no idea how to say that in French, but it's a global story of change that's made our business stronger than ever.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"With all thy getting, get understanding"

FREE TRADE MEANS MORE JOBS

BY STEVE FORBES, EDITOR-IN-CHIEF

A CRITICAL RAP against the proposed Trans-Pacific Partnership is that it will destroy jobs, which is the argument labor unions always use to oppose free-trade agreements like this one. Nonsense. What destroys jobs is innovation and productivity. When allowed to do so, people always look to find new and better ways of doing things—or to come up with new things altogether. Who had heard of an iPad or the process we call streaming just a few years ago? In the constant turbulence of free markets some jobs are eliminated, but the overall number and *quality* of jobs improve.

People today wax nostalgic over manufacturing, just as they did over farming before that. In reality, both, until recent decades, involved backbreaking manual labor. Remember the criticism that factory work was soulless and repetitive? Factory assembly lines are largely a thing of the past in this country. Job destruction? The U.S. railroad industry has shed a million jobs since the end of WWII, yet our standard of living today is significantly better than it was then.

It's human nature to look for and lash out at targets when our lives are disrupted by economic change. But when barriers to progress aren't put in the way, most people quickly land on their feet.

The problem today isn't nefarious bankers or currency-manipulating foreigners; it's our own government, which has hobbled us with a horrific tax code, a destructive monetary policy and a tsunami of opaque rules regarding health care and everything else and prevents us from focusing our energies on productive activities that would benefit us all.

Tax Rate Cuts Work—Always

One of the genius features of our federal system of government is that it allows states to be laboratories for policies, to see what works and what doesn't. The great welfare reform bill of 1996 came out of the pioneering policies of Wisconsin, which demonstrated that there could be a work requirement for benefits, thereby providing a safety net while not destroying the habits necessary for leading a productive life. Welfare rolls were slashed everywhere.

A variety of tax "experiments" are currently under way that bode well for radical federal tax reform after the 2016 elections.

Governor Sam Brownback of Kansas was pilloried for enacting major tax reductions that supposedly blew gaping holes in the state's budget because rapid economic growth didn't instantly materialize. Put aside the fact that some of his other tax proposals weren't enacted and that he didn't get all the tightening on overall spending he wanted. Democrats thought they'd knock him out in 2014. Instead, Brownback won, and his tax cuts, which took effect little more than two years ago (he whacked income tax rates *and* eliminated those levies altogether for small businesses), are starting to yield a bumper crop in prosperity. Private-sector job growth in Kansas is now outpacing that in most other states. The state's unemployment rate is among the nation's lowest. Just as impressive is Kansas' employment-to-population ratio, which is well above the national average.

Ohio's chief executive and possible presidential candidate, John Kasich, is also hacking away at his state's personal income tax, with an eye to eliminating it altogether, relying instead on broad-based consumption taxes. (He's already done away with Ohio's death tax.)

Even blue states are getting the tax message. Look at Maine, which a GOP presidential candidate hasn't carried since 1988. Governor Paul LePage is pushing to *eliminate* the state's income tax by 2020. Maine has long been in the economic dumps, and LePage, who was a successful businessman before going into politics full-time, knows that this is chiefly due to the state's hostile tax environment. Liberals and legacy media outlets can't stand LePage's unabashed free-market

principles and his willingness to let reporters know what he thinks of them and their employers. Their consternation was palpable when he won a stunning reelection victory.

Other Republican governors have been stalwart pro-growth tax reformers, and the results have been impressive. Political leaders in both parties should read *An Inquiry into the Nature and Causes of the Wealth of States* by Arthur Laffer, Stephen Moore, Rex A. Sinquefield and Travis H. Brown (Wiley, 2014). It gives conclusive, empirical proof that over time states with no income taxes perform better than those with the heaviest burdens: better in economic growth, population growth, job growth, personal income growth *and*—liberals, please note—government revenue growth.

What the states are demonstrating is that simplification and major income tax rate reductions generate prosperity.

Home Run For America

There's an online petition to have Yogi Berra receive America's highest civilian award, the Presidential Medal of Freedom (petitions.whitehouse.gov). It needs to garner 100,000 electronic signatures by June 8 merely to get the attention of the White House. A whole lot more than that would be terrific.

Berra, who just turned 90, deserves the medal for many reasons, and there's precedent for outstanding athletes receiving the award, including Ernie Banks, Stan Musial and women's basketball head coach Pat Summitt.

By the calculations of Bill James, whose novel and enlightening ways of measuring the performance of baseball players and teams has revolutionized the way the game is played and how managements put their teams together, Berra is the greatest catcher in baseball history. There's no more demanding a position in America's favorite pastime, physically or mentally (the catcher signals the type of pitch he wants the hurler to throw, which takes on-target knowledge of both the batter and the pitcher). Even on a team noted for such legendary sluggers as Mickey Mantle, Berra for seven years led the Yankees in runs batted in. He was the catcher in 1956, when Don Larsen threw the only perfect game in World Series history. Several times Berra was the American League's Most Valuable Player. It's no surprise he's a Hall of Fame member.

Yogi Berra served his country in the Navy during WWII, participating in the D-Day invasion.

Berra has long been an advocate of diversity and tolerance in baseball and elsewhere. He's also a great supporter of educational opportunities for young people. Back in 1959 he started a scholarship at Columbia University. His namesake museum focuses on education and character development.


Yogi celebrates his 90th birthday.

Of course, Berra is most noted for his paradoxical quotes and witticisms—now called Yogi-isms—which are legion.

In 1973 Berra was managing the New York Mets. By the dog days of summer the team found itself in last place in its division. Fans were furious, and sportswriters demanded to know, what now? Berra famously replied, "It ain't over 'til it's over." Indeed, the Mets miraculously got their act together and ended up winning the National League championship, besting the formidable and much favored Cincinnati Reds in the playoffs.

As a player Berra was noted for successfully hitting bad pitches. When asked about that, he replied, "If I can hit it, it's a good pitch."

Other sayings among his many: "When you come to the fork in the road, take it"; "Nobody eats there anymore; it's too crowded"; "It's déjà vu all over again"; "The future ain't what it used to be"; and "I didn't really say everything I said."

Yogi Berra was a big man in baseball and has been an even bigger one in life. F

Restaurants: Go, Consider, Stop

Edible enlightenment from our eatery experts and colleagues Richard Nalley, Monie Begley and Randall Lane, as well as brothers Bob, Kip and Tim.

● Caffè dei Fiori

973 Lexington Ave., between 70th & 71st streets (Tel.: 212-327-3400)

Small, romantic and charming two-floor gem that serves authentic Italian fare. Start with the burrata with prosciutto di Parma or the grilled octopus. Then try the homemade tagliatelle with beef ragoût or the Dover sole meunière, which is grilled to perfection. Spoil yourself with the creamy tiramisu.

● Happy Ending

302 Broome St., between Forsyth and Eldridge streets (Tel.: 646-998-3184)

This restaurant/lounge occupies a swank space that was once a well-regarded bar/club and, before that, a massage parlor, hence the name. It's filled with art statements galore, but the food is a mess: a tiny menu of tiny-portioned French standards that are memorable only for being overpriced. It's time for the owners to get back in the club game.

● Marta

29 East 29th St. (Tel.: 212-651-3800)

Danny Meyer and one of his ace chefs, Nick Anderer, have scored again. This time with pizza. The thin-crust pies have a lovely wood char (via hot embers), and the individual pies carry daring—and winning—topping combos (pig cheeks, potatoes, black pepper, pecorino and egg, anyone?). Those who prefer eating with a fork can get by on the likes of savory rabbit meatballs.

STAN GROSSFELD/THE BOSTON GLOBE VIA GETTY IMAGES


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LeaderBoard

June 15, 2015

From Beautiful Game to Bountiful Game: The 20 most valuable soccer franchises are now worth an average $1.16 billion. Also kicking it are the top-paid players, among them Lionel Messi *(right)*, who hauls in $70.5 million in salary and endorsements a year. *Gooooal!*

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THE TOP-EARNING SOCCER PLAYERS

CRISTIANO RONALDO $79 MIL
Real Madrid

LIONEL MESSI $70.5 MIL
Barcelona

ZLATAN IBRAHIMOVIC $41.8 MIL
Paris St.-Germain

GARETH BALE $34.9 MIL
Real Madrid

NEYMAR $31.7 MIL
Barcelona

RADAMEL FALCAO $31 MIL
Manchester United

WAYNE ROONEY $25.8 MIL
Manchester United

JAMES RODRIGUEZ $25.4 MIL
Real Madrid

SERGIO AGUERO $25.3 MIL
Manchester City

LUIS SUAREZ $19.9 MIL
Barcelona

AMOUNTS REPRESENT SALARY PLUS ENDORSEMENTS.

LIONEL MESSI PHOTOGRAPHED BY MIKE HEWITT / FIFA / GETTY IMAGES

THE WORLD'S 100 MOST POWERFUL WOMEN

The New A-List

THEY'RE THE ICONS and influencers who make up this year's definitive ranking of the most powerful women in the world. There are nearly 20 new faces in 2015—some still mostly unknown but already enormously successful, all of whom are remaking the landscape of finance, technology, entertainment, philanthropy, business and more. The difference between this diverse group and our inaugural class in 2004 (which was heavier with politicians and big fortunes) is dramatic—a result of the tidal force of technology in recent years and a new order less reflective of raw politics and great wealth than of global impact and reach.

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Chancellor
Germany

BILLIONAIRE

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U.S.

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Billionaire-activist
Australia

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Laurene Powell Jobs
Billionaire-philanthropist
U.S.

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Cofounder-CEO
SOHO China
China

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Founder-CEO
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Theranos
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Co-CEO
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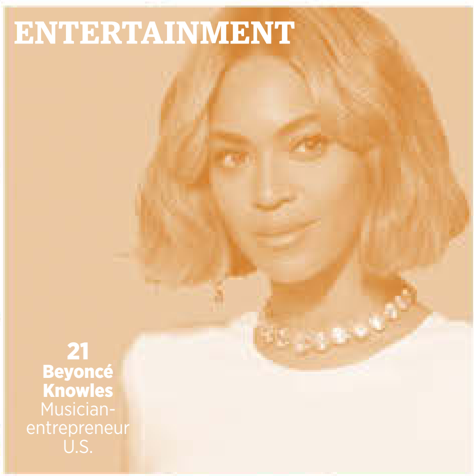

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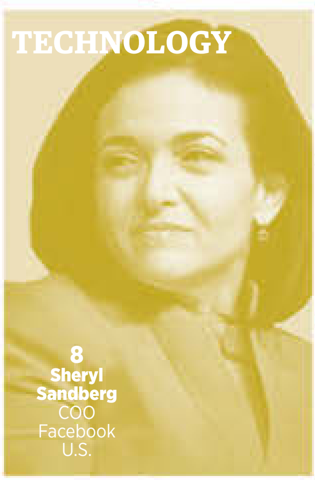

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BY CAROLINE HOWARD

LeaderBoard

SACHIN BANSAL

+NEW BILLIONAIRE

NET WORTH: $1.2 BILLION

CEO of Flipkart, India's top e-commerce firm, raises $500 million at a $15.5 billion valuation, making him and cofounder Binny Bansal new billionaires.

RICHEST BY STATE

Delaware

POPULATION:
925,240

GROSS STATE PRODUCT:
$63.5 BILLION
(1.57% GROWTH YEAR-ON-YEAR)

GSP PER CAPITA:
$68,631
(RANKS NO. 1 NATIONWIDE)

RICHEST:
ROBERT GORE
$675 MILLION

COULD YOU STASH $675 million in small bills inside a Gore-Tex pouch? Anything seems possible with the lightweight, durable fabric invented by Robert Gore, 78, chairman of W.L. Gore & Associates, headquartered in Newark, Del.

His parents founded the company in 1958; he developed Gore-Tex by accident one night in the lab in 1969 while trying to slowly stretch a rod of heated Teflon. It kept breaking, so he tried a new tactic: yank it quickly. It expanded far more than he expected, creating a strong yet light fabric that's also ideal for synthetic ligaments, sutures, medical patches and more.

Gore's wealth ties him with his sister Elizabeth Snyder for first place in Delaware; three other siblings live elsewhere. One, Susan Gore, devised a scheme to manipulate a trust that grants more Gore stock to families with more children: In 2003 she "adopted" her 65-year-old ex-husband, who promised to give the extra shares to their kids. He reneged, but in 2012 the Delaware Supreme Court—as unyielding as Gore-Tex is pliable—declared the ploy null and void.

NEW BILLIONAIRES

The Supplement King

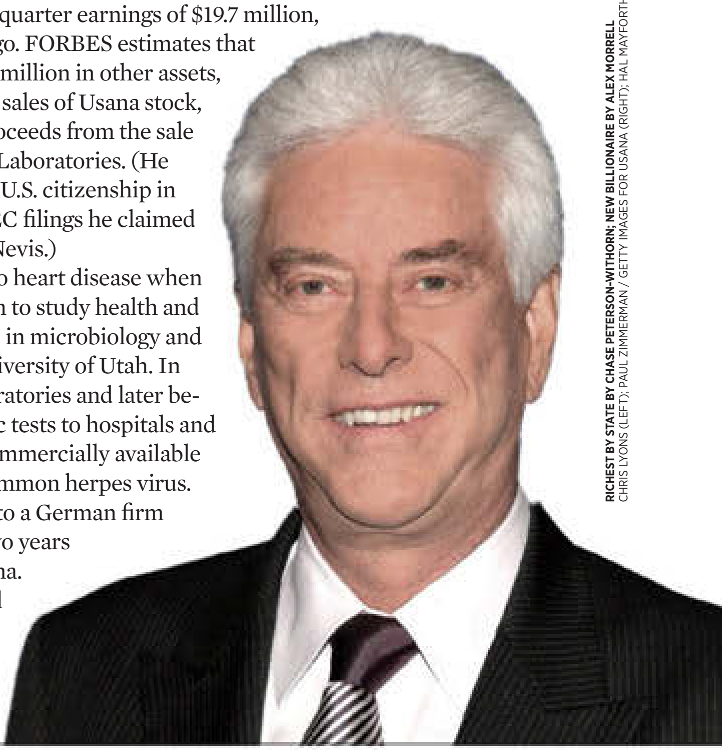
Usana Health Sciences' Myron Wentz rides his multilevel marketing firm to a ten-figure fortune.

DO MULTILEVEL MARKETING companies deliver on their promise of riches all the way down the depth chart? Well, maybe—but it sure helps to have founded the joint. Myron Wentz, founder and chairman of nutritional-supplement seller Usana Health Sciences, became a billionaire in May when his firm's stock popped 20% in a day after Usana beat earnings expectations. He joins Richard DeVos and the late Jay Van Andel of Amway, as well as Antônio Luiz da Cunha Seabra, a founder of Brazil's Natura Cosméticos, in forging a ten-figure fortune from a door-to-door sales company.

Wentz, 74, owns 51% of Salt Lake City-based Usana, which sells protein snacks, nutrition shakes and vitamins. His stake jumped to $910 million after it reported first-quarter earnings of $19.7 million, a 19% bump over a year ago. FORBES estimates that Wentz holds at least $170 million in other assets, including cash from prior sales of Usana stock, various properties and proceeds from the sale of his first company, Gull Laboratories. (He reportedly renounced his U.S. citizenship in the mid-1990s; in 2008 SEC filings he claimed citizenship in St. Kitts & Nevis.)

The loss of his father to heart disease when Wentz was 17 spurred him to study health and science; he earned a Ph.D. in microbiology and immunology from the University of Utah. In 1974 he started Gull Laboratories and later began selling viral diagnostic tests to hospitals and labs, including the first commercially available test for Epstein-Barr, a common herpes virus.

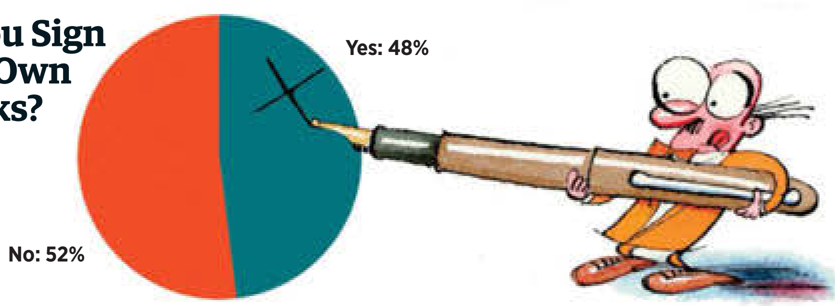
He sold his Gull stake to a German firm for $22 million in 1994, two years after having founded Usana. He was Usana's CEO until 2008, when his son David succeeded him.



RICHEST BY STATE BY CHASE PETERSON-WITHORN; NEW BILLIONAIRE BY ALEX MORRELL
CHRIS LYONS (LEFT); PAUL ZIMMERMAN / GETTY IMAGES FOR USANA (RIGHT); HAL MAYFORTH (BELOW); JAGADEESH NV / EPA/ NEWSCOM (TOP)

ASK 50 BILLIONAIRES

Do You Sign Your Own Checks?



ALL FIGURES AT THE TOP OF THIS AND SUBSEQUENT PAGES REPRESENT CHANGES IN WEALTH BETWEEN APR. 28 AND MAY 19. *SOURCES: INTERACTIVE DATA VIA FACTSET RESEARCH SYSTEMS; FORBES.*


THEY SAY
change is the only
constant
WE MAKE
value a constant, too
The big challenge for any enterprise isn't only setting a vision for change, but implementing it effectively. At KPMG, we not only help you envision a plan for the future, we work with you, shoulder to shoulder, to turn it into action that delivers real value. To learn how KPMG can transform vision into value for your business, visit kpmg.com/transformation.
KPMG

LeaderBoard

NICHOLAS WOODMAN

–$230 MILLION

NET WORTH: $2.4 BILLION

The GoPro founder coughs up 3.5% of his company, worth $229 million, to satisfy a deal he made with his surfing buddy a decade ago.

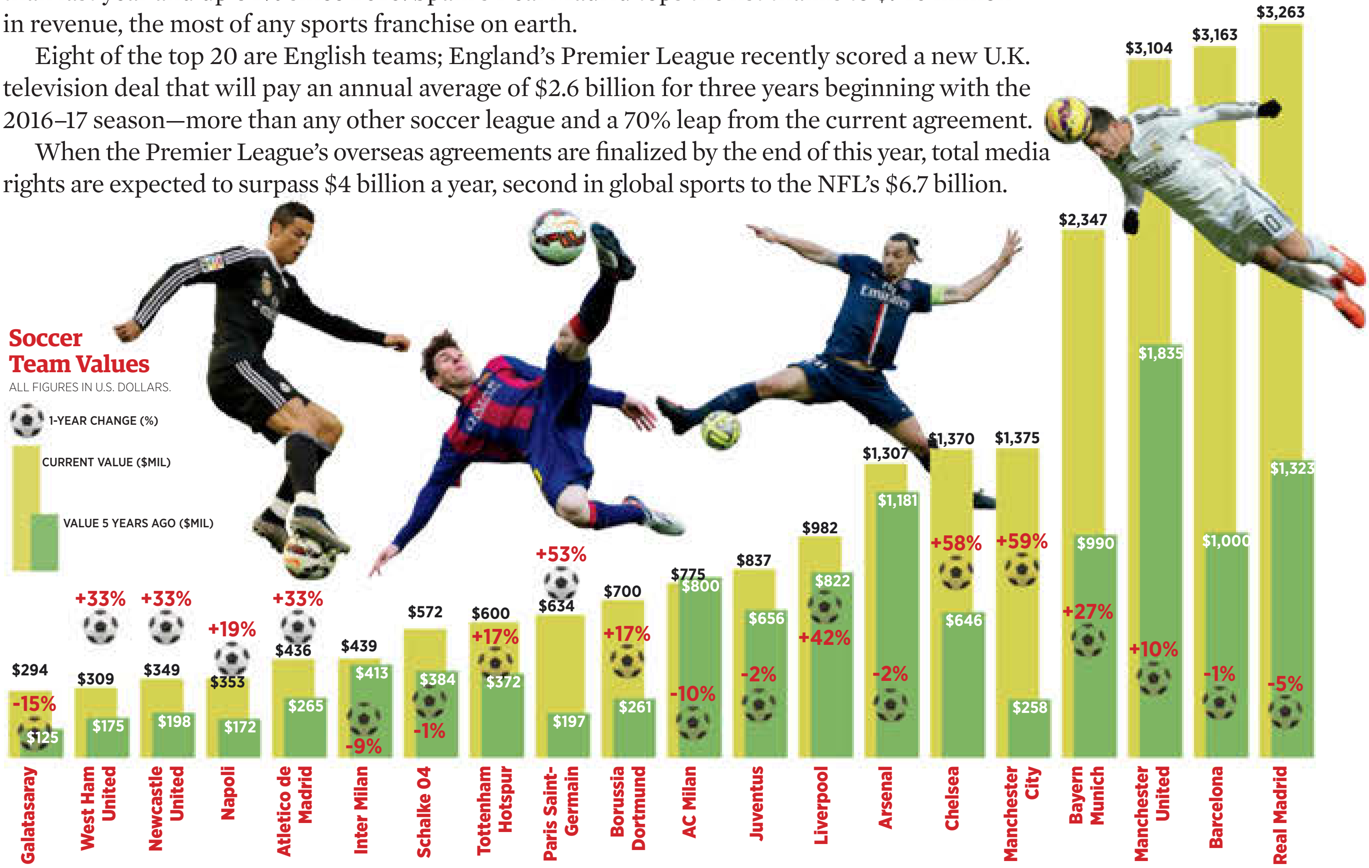
SPORTSMONEY

Soccer's Most Valuable Teams

THE 20 RICHEST soccer teams in the world are worth an average of $1.16 billion, 11% more than last year and up 84% since 2010. Spain's Real Madrid tops the list thanks to $746 million in revenue, the most of any sports franchise on earth.

Eight of the top 20 are English teams; England's Premier League recently scored a new U.K. television deal that will pay an annual average of $2.6 billion for three years beginning with the 2016–17 season—more than any other soccer league and a 70% leap from the current agreement.

When the Premier League's overseas agreements are finalized by the end of this year, total media rights are expected to surpass $4 billion a year, second in global sports to the NFL's $6.7 billion.



30 UNDER 30

Power Players

Science and energy innovations from the FORBES 30 Under 30, in 30 words or less.

Hahna Alexander, Matt Stanton

SOLE POWER | 24, 25

Dr. Scholl's meets Energizer Bunny: Shoe inserts harness energy with each step, charging a lithium-ion polymer battery pack. An hourlong walk generates 30 to 60 minutes of iPhone talk time.

Anna Schneider

WATTTIME | 30

WattTime tracks power grid data to reveal times when appliances are likelier to run on wind or solar instead of coal. Next: electric car chargers that refuel with clean energy.

Dave Smith

LIQUIGLIDE | 30

Gets your lotion in motion by creating a permanently slippery surface, making it easier to squeeze the last drop from creams, glues and toothpaste. Scored $7 million funding in March.

SOCCER BY MICHAEL K. OZANIAN; 30 UNDER 30 BY KATHRYN DILL
PATRICK WELSH (BOTTOM); GETTY IMAGES (TOP)

LeaderBoard

LI HEJUN

–$13.3 BILLION

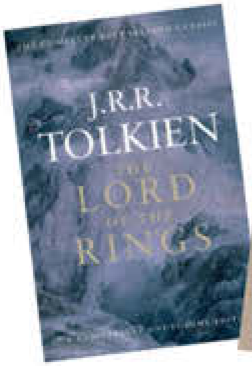
NET WORTH: $19.4 BILLION

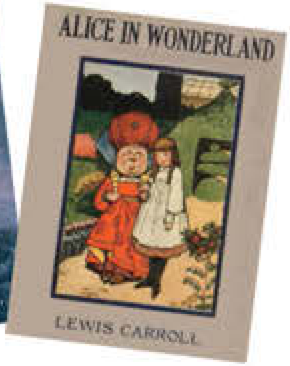
Stock in his solar company, Hanergy, soared 560% over the last year—but after he misses the annual meeting, shares tumble 47% before trading is suspended.

BUSINESS LIBRARY

Popcorn Paperbacks

Want to make a fortune in Hollywood? Hit the books first.



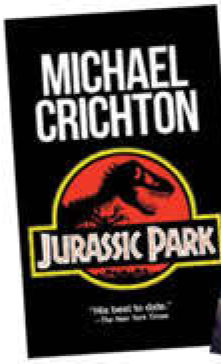


IT MIGHT BE TIME to update the old adage: These days a picture is worth a thousand words—and, occasionally, a billion dollars. Unadjusted for inflation, five movies directly adapted from books have cracked $1 billion in global ticket sales. Add comic books and the list grows to ten. (Most recently: *Avengers: Age of Ultron*, whose heroes have racked up more than $1.2 billion since early May.)

Since *The Exorcist* in 1973 ($441 million) book adaptations have tallied $33.6 billion in constant-dollar ticket sales—and that's just among the 200 top-grossing movies. The hottest genre by far: Young Adult fiction. Seventeen of the 25 highest-grossing book-movies started as acne-and-angst YA novels.

Make that acne, angst and alchemy: A certain young wizard's 2001 celluloid debut, *Harry Potter and the Sorcerer's Stone,* grossed $975 million and spawned a franchise that cast a $7.7 billion spell at the box office. (The other YA staples: *The Hunger Games, Twilight* and C.S. Lewis' *The Chronicles of Narnia*.)

And while literary purists might lament the dominance of all that kiddie fiction, one big box office performer has a loftier pedigree: Margaret Mitchell's *Gone With the Wind,* published in 1936, brought in $1.6 billion in 2015 dollars (domestic only!) when it hit screens three years later—making Rhett and Scarlett the financial peers of Harry, Bilbo and Alice in Wonderland.



Wild About Harry

The ten highest-grossing cinematic novel adaptations of all time ...

MOVIE	WORLDWIDE BOX OFFICE GROSS	YEAR
HARRY POTTER AND THE DEATHLY HALLOWS PART 2	$1.34 BIL	2011
THE LORD OF THE RINGS: THE RETURN OF THE KING	1.12 BIL	2003
JURASSIC PARK	1.03 BIL	1993
ALICE IN WONDERLAND	1.03 BIL	2010
THE HOBBIT: AN UNEXPECTED JOURNEY	1.02 BIL	2012
HARRY POTTER AND THE SORCERER'S STONE	975 MIL	2001
THE HOBBIT: THE DESOLATION OF SMAUG	960 MIL	2013
HARRY POTTER AND THE DEATHLY HALLOWS PART 1	960 MIL	2010
THE HOBBIT: THE BATTLE OF THE FIVE ARMIES	955 MIL	2014
HARRY POTTER AND THE ORDER OF THE PHOENIX	940 MIL	2007

Bats, Spiders, Guardians, Avengers

... and the top ten moneymaking comic-book adaptations.

MOVIE	WORLDWIDE BOX OFFICE GROSS	YEAR
MARVEL'S THE AVENGERS	$1.52 BIL	2012
IRON MAN 3	1.22 BIL	2013
AVENGERS: AGE OF ULTRON	1.2 BIL	2015
THE DARK KNIGHT RISES	1.08 BIL	2012
THE DARK KNIGHT	1 BIL	2008
SPIDER-MAN 3	891 MIL	2007
SPIDER-MAN	822 MIL	2002
SPIDER-MAN 2	784 MIL	2004
GUARDIANS OF THE GALAXY	774 MIL	2014
THE AMAZING SPIDER-MAN	758 MIL	2012

ALL DOLLAR FIGURES UNADJUSTED FOR INFLATION; CHILDREN'S BOOKS NOT INCLUDED IN THE RANKINGS.

BY NATALIE ROBEHMED

CHINAFOTOPRESS / GETTY IMAGES (TOP)


#haveKINDLEwillTRAVEL
@ANASBARROS, ISTANBUL | Amazon asked me to take the Kindle Paperwhite on my next trip. I found my way up to the rooftops to read Kafka on the Shore—it's a book I keep coming back to. Because, like this beautiful city, it means something new each time I visit.
Follow more journeys on Instagram @AMAZONKINDLE
kindle
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LeaderBoard

MARC BENIOFF

+$130 MILLION

NET WORTH: $3.6 BILLION

Salesforce CEO sees his shares jump 12% in a day amid rumors that he may be looking to sell the company to a big rival such as Oracle or Microsoft.

SEAL THE DEAL

The Bulletproof Tie

NOT EVERY BUSINESS occasion calls for a tie, but when one does, choose wisely. The color, pattern and material you select all convey a message. There are, say, nautical or equestrian themes to depict your passions outside the office. Some view diagonal stripes as a sign of success—if, like a quarterly growth chart, they're heading in the right direction: upward. Still others concern themselves with always wearing the correct logos.

The ties here tell a different story. Though the labels are exceptional, they don't scream "designer." As for the palette, blue is a classic power color. It's calming—cool but confident. Pair one with a white shirt and suddenly you're Sean Connery in *From Russia With Love* or a young Don Draper. But the subtle weave makes them even more versatile, wearable with a striped or checked shirt. And the message they send? It's very simple: You're solid.

Cotton shirt by Turnbull & Asser ($395); silk tie by Ermenegildo Zegna ($395). Bottom, from left: silk tie by Hermès ($200); silk tie by Brioni ($230); silk tie by Charvet ($245); silk tie by Giorgio Armani ($245).

BY MICHAEL SOLOMON

PHOTOGRAPH BY DAVID ARKY FOR FORBES; STYLE DIRECTOR: JOSEPH DEACETIS; BLOOMBERG (TOP)

LeaderBoard

PATRICK DRAHI

+$3.8 BILLION

NET WORTH: $23.1 BILLION

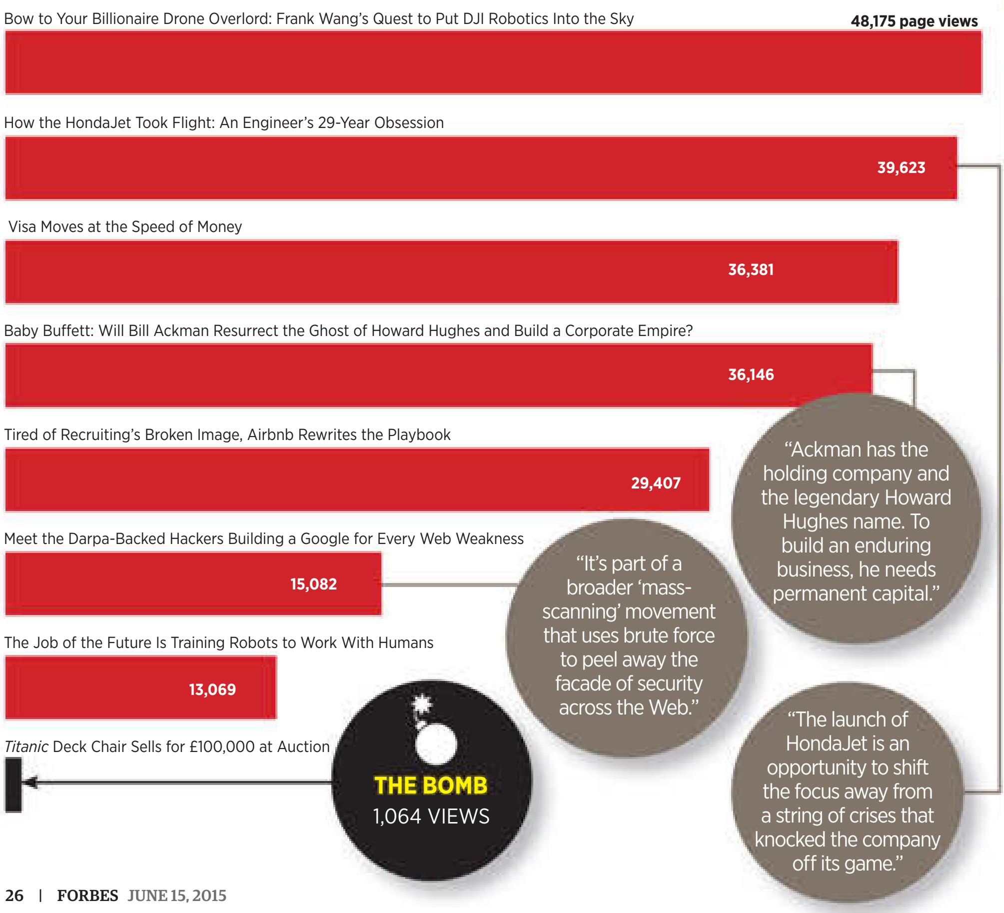
French telecom mogul invades America. His Altice buys 70% of cable operator Suddenlink in a deal valued at $9.1 billion and is reportedly in talks to buy Time Warner Cable.

CONVERSATION

CALL THEM THE new Gang of Four: Our May 25 Global 2000 list of the world's biggest public companies drew tremendous attention to the quartet at the top: four state-owned Chinese banks with a combined market cap of $880 billion. Ranjit Goswami, a professor at India's Institute of Management Technology, cast a wary eye on "the new era of social-capitalism," while Gwynn Guilford of the digital news outlet Quartz used our list as a springboard for a thoughtful essay about China's "bank bloat." Slate's Lily Hay Newman, in a piece about U.S. ports' vulnerability to a cyberattack, noted a study that found 74% of last year's Global 2000 are digital-security laggards. (We eagerly await this year's results.) "Doesn't this sound kind of, um, important?" she wrote. Well, sure. Good thing we have nothing to fear from Chinese hackers.

THE INTEREST GRAPH

Up, up and away: Online readers looked skyward, as HondaJet and consumer drones flew the highest from our May 25 issue.



STARTUP SECRETS

Trip Adler, CEO of digital-library subscription service Scribd, talked to FORBES readers about the art of entrepreneurship.

@NOELLYSAM What's the best way to attract investors or strategic partners to join your venture?

@FORBES Traction. If you can demonstrate real growth early on, investors will probably come to you. And that's true at the later stages of a business too.

@SAKADSTIC What are the key factors to survive the first five years of your startup?

@FORBES There's a lot that matters over the course of five years: team, finding product market fit, finding a business model, finding a scalable way to grow. Being willing to change while still being stubborn about the initial idea.

@APOLACK Many entrepreneurs say culture is as simple as hiring the right people and transparency thru tools like Slack. True/false? Why?

@FORBES I'd give a similar answer. Hire the right people, create a transparent environment, trust your team. It's also important to set the culture early on, because once a particular culture gets set it's difficult to change.

BY MEHRUNNISA WANI

MARTIN BUREAU / AFP / GETTY IMAGES

Defining Moments

SHELLEY O'CONNOR
Morgan Stanley, Wealth Management

When Shelley O'Connor joined Morgan Stanley's wealth management office in San Francisco right out of college, she planned to work for just one year before pursuing a graduate degree in psychology. That was in 1984 when there were three women Financial Advisors in the entire firm and no women among the firm's senior leadership. Now, 30 years later, she is Head of Field Management for Morgan Stanley's wealth management business, a member of the firm's Operating Committee and a tireless advocate for women in the workplace.

Shelley O'Connor

Today O'Connor oversees a nationwide network of approximately 16,000 Financial Advisors in more than 600 branch offices that provide a wide range of financial products and services to individuals, businesses and institutions. While there are significantly greater numbers of women in Financial Advisor and leadership roles at the firm today, O'Connor would like to see even more.

Working closely with senior leaders across the organization, O'Connor is helping the firm expand its hiring, training and development programs targeted to women. To encourage women to enter the business, the firm has a range of apprenticeships that offer stretch assignments, mentoring and coaching for women at all career levels—recent college graduates, women looking for a mid-career change and women returning to the workforce after a break. O'Connor also champions ongoing learning and support through multiple women's networking groups and events like the firm's biennial Women's Leadership and Multicultural Leadership Summits, which bring together top-performing women and multicultural Financial Advisors and Branch Managers for peer-to-peer learning and professional development. O'Connor is also a supporter and member of the inaugural class of MAKERS @ Morgan Stanley Wealth Management, a digital and video storytelling platform that annually showcases 15 of the firm's accomplished women nominated by their peers.

> **"We need to resemble and reflect the clients we serve."**
>
> **—Shelley O'Connor, Morgan Stanley Wealth Management**

Stretching Boundaries, Creating Opportunities

O'Connor doesn't mind stepping out of her comfort zone to create and follow career opportunities. She has found every one of those opportunities within the Morgan Stanley organization, which she considers a true meritocracy. Hard work and focus have helped her succeed.

Two weeks into her first job as an assistant in the branch and eager to learn more, O'Connor started attending a weekly research meeting for Financial Advisors broadcast from the New York office. She quickly became hooked on the business. Over the years she raised her hand repeatedly for new roles and opportunities and rose through the ranks to become the Southwest Region Manager for the Private Wealth Management business.

After 20 years in California, in 2004 she joined the Wealth Management leadership team in New York as the Chief Operating Officer for the branch organization. Two years later, she moved on to become Chief Administrative Officer for the Wealth Management business, and in 2010 she was named Chief Executive Officer of Morgan Stanley Private Bank, National Association, which provides cash management and lending products and services as part of Morgan Stanley's comprehensive wealth management offering. Four years later, in February 2014, she was named Head of Field Management.

Changing the Face of Wealth Management

In the year since she has been in her Field Management role, O'Connor has focused on growing the business and helping Financial Advisors leverage the resources of the full firm to deliver the superior experience that clients expect.

As she continues to refine her organization, O'Connor also is mindful of statistics about the growing financial power of women. With women now in control of investment decisions for almost 40% of U.S. investable assets, she believes that attracting, advancing and empowering women in wealth management careers is extremely important and the right thing to do. "We need to resemble and reflect the clients we serve," she says. ■

SOCIETY'S LOTTERY WINNERS

WORDS MATTER. Take the phrase "If we can't ask from society's winners to make [an] investment. ... " It's a familiar plea from preachers and fundraisers, a particularly American approach. The U.S., happily, is a country that mints many winners who then traditionally give lots of money to charities, churches, schools and nonprofits.

Now change this plea by the addition of a single word: "If we can't ask from society's *lottery* winners to make [an] investment. ..." Hmm—it has an altogether different ring to it, no? That one word, "lottery," changes the entire meaning. A good-hearted plea to society's successful to heed their better angels and give something back becomes, by inserting "lottery," sarcastic and cutting.

Winning a lottery doesn't make a person worthy of respect. A lottery winner wins despite engaging in an impulsive act. A lottery winner wins only because others lose. A lottery winner who won't give back, therefore, is a lucky bastard.

A winner, on the other hand, is worthy of respect. He or she studied a discipline, risked time and capital, met market needs, learned from mistakes and likely worked very hard to achieve success.

This little example of how "lottery" changes an entire sentence's meaning would be trivial but for one fact: President Obama said it—"lottery" and all—while speaking on a poverty panel last month.

What to make of this? Was it an unintentional slip to call successful Americans "lottery winners," or was it a window into the President's worldview on wealth, poverty and injustice? If it's the latter, we're in new territory. I don't recall another American President who had such a sarcastic view of success. President Franklin Roosevelt thought and said that big business and bankers opposing his New Deal were "malefactors of great wealth," but he stopped short of making snarky comments about successful people being lucky. Woodrow Wilson thought entrepreneurs were a passing fad to be replaced by scientific consortiums of big business and big government. But he didn't call Thomas Edison and the Wright Brothers lottery winners.

LUCK OR HARD WORK?

Intended or not, President Obama's use of the words "lottery winners" instead of "winners" was in really poor taste. Bill Gates and Paul Allen were surely lucky to be endowed with the 99.99th percentile IQs they didn't choose. But they each devoted tens of thousands of hours in applying their smarts to learning about software. Gates forfeited great opportunities by dropping out of an elite college. Both risked potentially lucrative careers to start Microsoft.

Larry Page was the grandson of a Michigan autoworker and the son of a professor of computer science and an instructor of computer programming. His business partner, Sergey Brin, was born into a Jewish family in the anti-Semitic Soviet Union. Both were "lucky" to be endowed with native intelligence and to grow up in families that loved learning. But millions of children around the world are similarly endowed and don't start Google-like companies.

WhatsApp's Jan Koum grew up in a single-parent California household that often relied on welfare. Netscape cofounder Jim Clark grew up in Texas panhandle poverty and dropped out of high school at age 16. His cofounder, Marc Andreessen, grew up in a rural Wisconsin family unfamiliar with higher mathematics, computer science or software—or even much logical reasoning.

Wilbur and Orville Wright's father, according to David McCullough's fascinating new book, *The Wright Brothers* (Simon & Schuster), encouraged reading and independent thinking. But the Dayton, Ohio brothers acquired an interest in bicycles and kites on their own. In 1899 Wilbur asked the Smithsonian Institution for papers on mechanical and human flight, adding that he wasn't a "crank." The brothers existed on little but eggs and suffered apocalyptic mosquito attacks while doing their wing-warp experiments in the North Carolina sand dunes. In 1905 they were able to fly circles for 30 minutes and more. By 1908 they could stay aloft for 90 minutes and do figure eights. Orville almost died when the propeller broke off a plane he was flying, which then crashed, killing his passenger, Lieutenant Thomas Selfridge.

Between the time Wilbur received his papers from the Smithsonian and the French and U.S. militaries finally believed the Wright Brothers had mastered controllable flight, nine years of bad food, bug bites, crashes and sneering press coverage had passed. President Theodore Roosevelt had the good grace not to call the Wright Brothers "lottery winners." F

THOMAS KUHLENBECK FOR FORBES

RICH KARLGAARD IS THE PUBLISHER AT FORBES. HIS NEW BOOK, *TEAM GENIUS: THE NEW SCIENCE OF HIGH-PERFORMING ORGANIZATIONS*, COMES OUT IN JULY. FOR HIS PAST COLUMNS AND BLOGS VISIT OUR WEBSITE AT WWW.FORBES.COM/KARLGAARD.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IS BRITAIN MOVING OUT OF EUROPE?

NOW THAT THE BRITISH electorate has given David Cameron and his Conservatives a parliamentary majority and a reasonably secure term of office, attention has turned to Britain's relationship with the EU.

The U.S. has always preferred that Britain be a member of the EU and, if possible, that it take a lead in the EU's policies and vision for the future. Most Americans aren't interested in the details of the EU's structure, but the U.S. State Department has a distinct view of what it would like the EU to be: a federal body with common legislative, economic and taxation policies, with Britain at its center.

I suspect the reason for this view is that the U.S. would have a much easier time dealing with a federated EU in which Britain was a leading player and guiding spirit than it has dealing with today's conglomerate of nations, each pulling in a different direction according to national interests.

Indeed, some American diplomats envision the EU becoming an updated version of the "Special Relationship," with a federated Britain setting the tone, in accordance with Anglo-Saxon principles, in foreign and economic policies and educating the Europeans so they follow suit.

But this is pure fantasy. Europe isn't like that and never can be. One can't make analogies to the U.S.' creation, either. The Founding Fathers shared not only a common language but also a common heritage of law, society and custom. They were able to debate the contents of the Constitution using the same terms and in the same emotional spirit that had been in use in the British Parliament for hundreds of years.

Many of the Founding Fathers believed they weren't creating anything essentially new but were restoring a representative set of institutions that George III and his ministers had perverted. They were turning the clock back to the glorious days of the mid-17th century, when the king had been executed by an Act of Parliament and the people's representatives ruled.

In contrast, the Europeans who created the EU, who run it from Brussels and who are devising its federal structure come from a quite different intellectual background—one that is narrow, bureaucratic, formal, ultralegalistic and fundamentally undemocratic.

The EU is the product of a deal between France and Germany, neither of which had much experience with democratic institutions and both of which are accustomed to a strong, centralized state and bureaucratic uniformity. Britain's Magna Carta means nothing to them, and the U.S. Bill of Rights isn't part of their history. They are the emotional heirs of Louis XIV, Napoleon and Bismarck, and their instinct is to obey and conform, to serve the state. The philosophical and ideological principles underlying the EU's rules spring from a completely different tradition, one rooted in Roman law, which would be quite alien to anyone who has served in Congress or the House of Commons.

A LOOSENING OF TIES

David Cameron intends to put Britain's relationship with Europe to a referendum. Its terms have yet to be determined, but they will deal with existing rules and the future shape of the EU. Much will depend on whether Cameron succeeds in his plan to change the existing rules of negotiation with Brussels. My guess is that he won't. The referendum will then be about whether or not the British wish to continue as full members of the EU. They will opt to pull out—and by a large majority.

One factor that will have bearing on the outcome is the recent performance of the American and British economies, especially since the 2008 crisis. Both have performed notably better than the EU as a whole, and this is palpably due to their relative freedom from regulations, in contrast with the EU-imposed restrictions on members of the euro zone.

The feeling among a growing number of British politicians is that recent years have confirmed the notion that the British and American economies have more in common with each other than either has with the EU. This reminds me of a statement that has seen many versions, that "economically, the English Channel is wider than the Atlantic."

This is why I believe it's inevitable that Britain will secure a much looser relationship with Europe. It remains to be seen what effect this will have on Europe. My guess is that other countries will follow suit. Then Europe will learn the lesson that overambitious federalism doesn't pay. F

THOMAS KUHLENBECK FOR FORBES

PAUL JOHNSON, EMINENT BRITISH HISTORIAN AND AUTHOR; DAVID MALPASS, GLOBAL ECONOMIST, PRESIDENT OF ENCIMA GLOBAL LLC; AND AMITY SHLAES, WHO SERVES AS PRESIDENTIAL SCHOLAR AT KINGS COLLEGE AND CHAIRS THE COOLIDGE FOUNDATION BOARD, ROTATE IN WRITING THIS COLUMN. TO SEE PAST CURRENT EVENTS COLUMNS, VISIT OUR WEBSITE AT WWW.FORBES.COM/CURRENTEVENTS.

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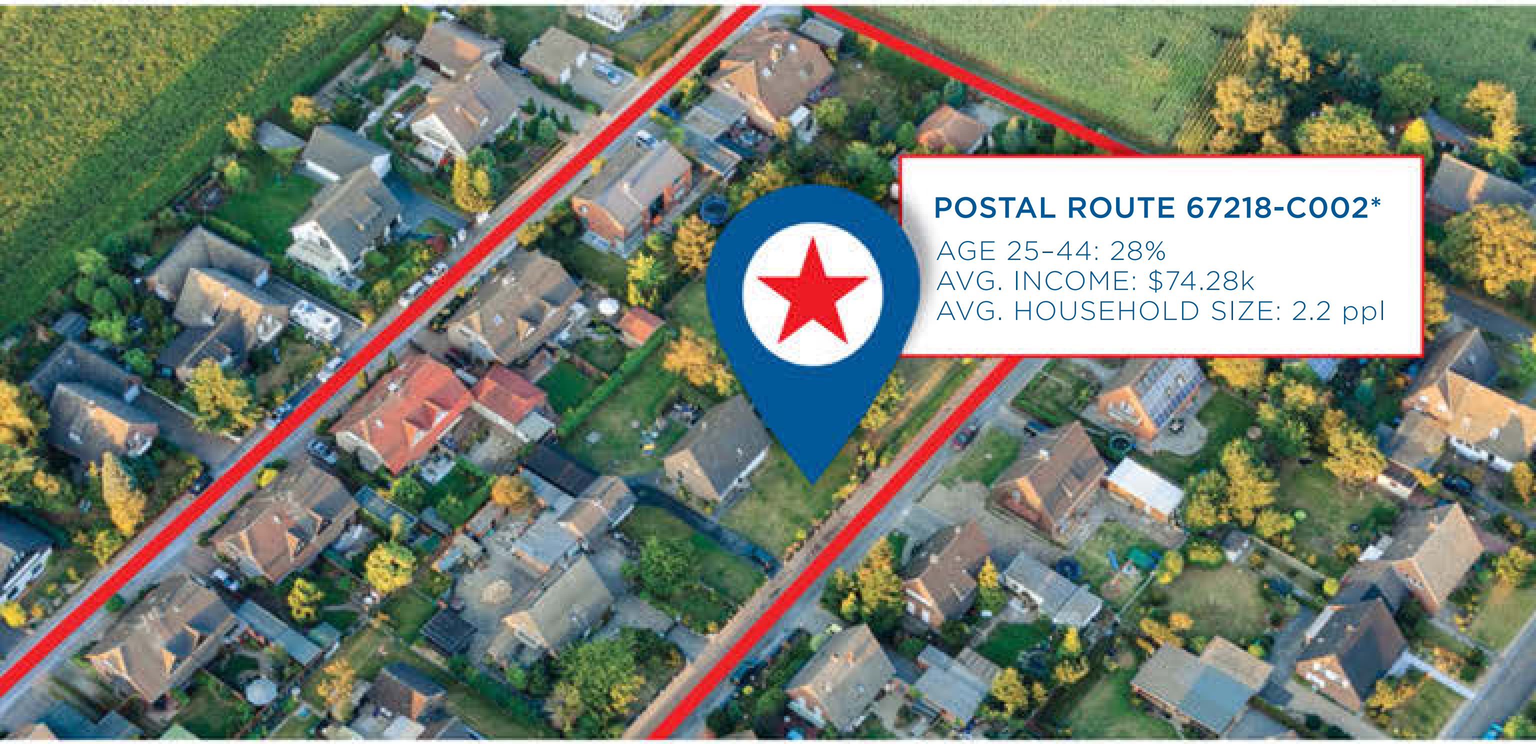

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Verticals June 15, 2015

To celebrate the tenth anniversary of his company MB&F, the imaginative Swiss watchmaker Maximilian Büsser is releasing this $230,000 "Space Pirate" timepiece, of which just 50 will be made. Says Büsser: "Our clients expect to be amazed."

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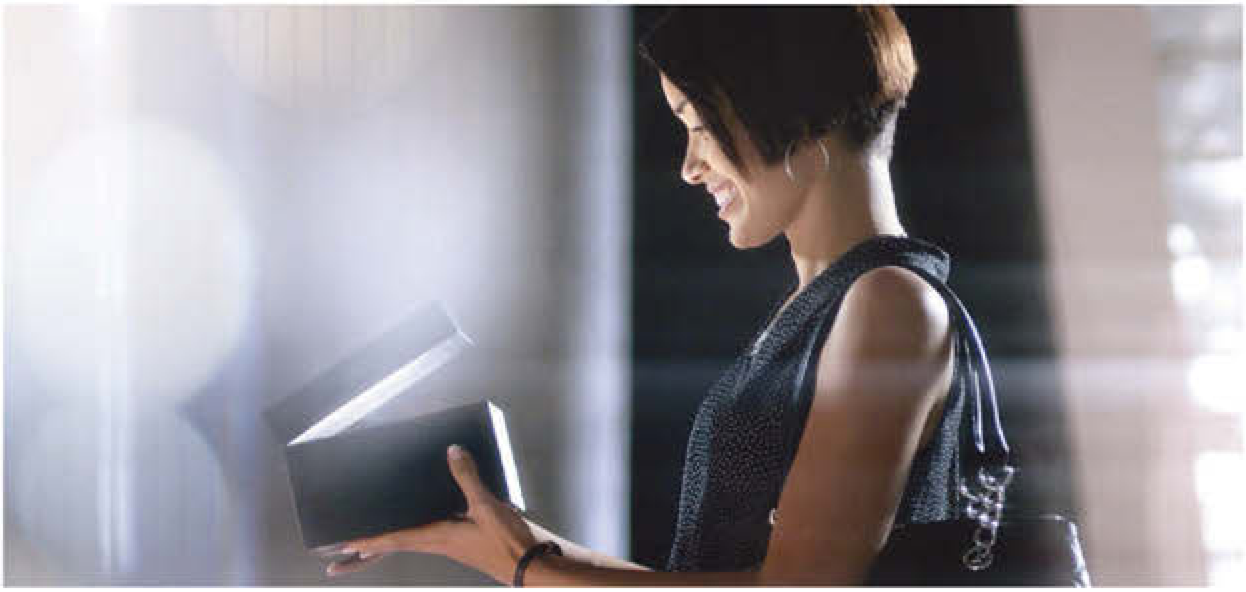

INNOVATION IN THE AGE OF EXPERIENCE

We live in an age where businesses need to look beyond the aesthetics of a product or the practicalities of a service...where consumer engagement and loyalty count far more than features and benefits alone...where consumers expect to interact with or even influence suppliers – not just be sold to.

Products are no longer enough for today's consumers who value experience over all else.

THE AGE OF EXPERIENCE HAS ARRIVED

Executives and academics everywhere accept that in the modern economy, the key to success is delivering consumer experiences that demonstrate true differentiation.

And yet, the task is a daunting one at best. What exactly is meant by experience? And, more importantly, how can a business influence it, given the complex array of emotional, rational and physical responses that inevitably drive consumer connection?

IF WE CHANGE THE WAY WE INNOVATE, CAN WE DEVELOP EXPERIENCES THAT CONSUMERS DEMAND?

The key to making consumer experience the true focus of innovation is to capture insights and expertise from across a business's entire ecosystem.

Shaping the right consumer experience requires not only the involvement of but also the collaboration between all roles within a company – from marketing and management to sales and engineering.

Only by connecting all the dots between people, ideas and data can a business drive consumer loyalty, engagement and value.

IF WE WANT TO THRIVE IN THE AGE OF EXPERIENCE, WHERE CAN WE TURN?

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3DEXPERIENCE

It takes a special kind of compass to understand the present and navigate the future.

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Fracking's Cowboy Rides Again

America's wildest wildcatter, Aubrey McClendon, found new life—and new billions—after his spectacular plunge from the top of the oil game. Trouble has already come calling.

BY CHRISTOPHER HELMAN

Still hungry: After rounding up more than $10 billion from investors for oil and gas exploration, McClendon is again raising funds.

SEAN GARDNER / REUTERS

In early 2013, during his last days as CEO of Chesapeake Energy, Aubrey McClendon was one busy guy. Chesapeake's board gave him the boot following a litany of accusations about his rampant conflicts of interest, lavish perks, reckless bets and failure to disclose that he had personally borrowed around $1 billion, some from Chesapeake's own lenders. But before leaving the building, McClendon allegedly gave himself a parting gift. According to a lawsuit filed by Chesapeake in February, he had his assistant print out highly sensitive maps of oil and gas prospects in Ohio's natural-gas-rich Utica shale formations, and he e-mailed more proprietary and valuable information to his private account.

McClendon set up a new operation—American Energy Partners—in offices up the street from Chesapeake's Oklahoma City campus. He found a deep-pocketed partner in John Raymond, CEO of $15.5 billion Houston private equity outfit Energy & Minerals Group (and son of legendary Exxon CEO Lee Raymond). McClendon quickly got to work: By the time Chesapeake filed its lawsuit alleging theft of secrets, American Energy's Utica affiliate had already bought up more than $1.5 billion of acreage.

As for those allegations of theft? "I am entitled to possess and use the 20 terabytes of information I own," McClendon said in a press release. "It is a sad day to see Chesapeake stoop so low as to sue its cofounder for having information that was earned, paid for and provided through my contracts with Chesapeake." Through a spokesman, McClendon tells FORBES he expects to be vindicated in arbitration. Raymond declined to speak with FORBES.

Regardless of who's right, one thing is clear: McClendon's life after Chesapeake has been every bit as outrageous as you'd expect for the man FORBES dubbed "America's Most Reckless Billionaire" in 2011 after a 22-year run leasing up more than 13 million acres of land across ten states. He built Chesapeake from nothing in 1989 into the juggernaut of America's fracking boom, with an enterprise value of $30 billion and more natural gas production than any other American company save Exxon Mobil. He

clocked in then at No. 359 on The Forbes 400 list of the richest Americans, with a personal net worth of $1.2 billion.

McClendon may have fallen far off the list since then, but he's done nothing to diminish his reputation as the world's wildest wildcatter. In just over two years McClendon, via American Energy Partners, has spent more than $10 billion of other people's money (about $5.9 billion in equity leveraged up with $4.5 billion in debt) to acquire about 600,000 acres in Ohio, West Virginia, Oklahoma and Texas for oil and gas exploration. Raymond's EMG has put up some $3.5 billion. First Reserve, the energy-focused private equity giant, chipped in most of the rest, with McClendon contributing $200 million of his own, according to a spokesperson. (McClendon declined interview requests from FORBES.)

But just as it did at Chesapeake, McClendon's fast-and-loose style could be catching up with him. Thanks to the implosion of oil and gas prices, billions of dollars of top-of-the-market asset purchases are likely slipping underwater, and his burgeoning empire is at risk. He's now looking to raise billions more from investors, betting a rise in prices will vindicate him and reap huge profits.

The first sign of trouble came in early 2015, when Raymond removed McClendon as CEO of American Energy's Appalachia affiliate, replacing him with Jeff Fisher, a former top executive at Chesapeake. Raymond also negotiated a settlement between that company and Chesapeake over those theft allegations; in April American Energy agreed to hand over 6,000 Ohio acres and pay Chesapeake as much as $25 million. McClendon's spokesman says it would be a mischaracterization to say that Raymond's settlement was done behind McClendon's back, though he wasn't party to it (McClendon is still in arbitration with Chesapeake over its personal claims against him). The episode strained relations between Raymond and McClendon, according to sources, though a spokesman for McClendon insists, "It's my understanding that Aubrey and John remain great friends and strong partners, and are in constant communication."

Meanwhile, in April Chesapeake agreed to pay $25 million to settle charges against the company brought by the Michigan attorney general that McClendon violated antitrust laws back in 2010 by conspiring with a rival to limit what they'd pay for natural gas leases. According to an April SEC filing by one of McClendon's companies, the Department of Justice is investigating him. DOJ won't confirm.

Then there's McClendon's Texas fracas—a flurry of suits between American Energy and Denver-based Enduring Resources over a $2.5 billion, 60,000-acre deal (McClendon's biggest so far) that's already gone bad.

Another concern: McClendon's compensation under the kind of heads-I-win-tails-I-don't-lose arrangement he pioneered at Chesapeake. His management company gets paid to oversee all the assets that American Energy's affiliates acquire. Beyond that, according to an American Energy debt circular, he gets "incentive units" that will pay out once the private equity guys realize a return. The incentive is for McClendon to do deals, lots of deals, in order to maximize his chances of big payouts down the road. But if oil prices stay low, his management company still gets paid.

The debt circular for its Permian Basin unit shows just how expensive the arrangement can get. The company's production costs average $83 per barrel of oil (and natural gas equivalents), well above current oil prices. Actual drilling costs? Six bucks. Overhead? Three. But "management services" fees are $12 per barrel and "incentive unit expenses" paid to McClendon and his team are $39. For the two months ending September 2014, American Energy accrued $41 million in these costs.

A spokesman says McClendon's management fees were high in 2014 because of startup costs; they should be lower next year. Also, the units won't have any value to McClendon until the private equity firm has made back its money

FLASHBACK

OCT. 24, 2011

Before his fall at Chesapeake, McClendon put on a Bordeaux-fueled charm offensive to win over a skeptical FORBES reporter, including an uninvited hotel room upgrade. "He is without a doubt the most admired—and feared—man in the U.S. oil patch. But he's also the most reckless, the alpha wildcatter with an off-the-charts risk tolerance. … He may have changed my room, but McClendon didn't entirely change my view of his company."


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BY WESTIN
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plus a decent return.

Still, thanks to these fees and incentives, the company's production costs are nearly double the average North American oil company's, according to Bernstein Research. Remove them and the Permian Basin affiliate would have costs around $32 per barrel—profitable in all but the worst market conditions. But backing them out would presumably mean backing out Aubrey McClendon.

Raymond is said to be seeking a buyer for some of the Texas assets. McClendon's spokesman says although it "will always consider monetization opportunities" American Energy is still "looking for more assets to acquire."

This seems unlikely if oil prices stay low. American Energy-Permian Basin slashed planned 2015 capital spending from about $1 billion to less than $500 million, according to Standard & Poor's. Even with reduced drilling plans the company could need to raise billions before it's able to generate enough free cash flow to live within its means. It's the same story at American Energy's other affiliates—too much debt, lots of capital required to develop assets bought at the top of the market and uncooperative oil and gas prices. In May Carin Dehne-Kiley, an S&P credit analyst, downgraded the ratings of American Energy and its sister companies on concerns of overleverage and dwindling liquidity.

McClendon's strategy might have worked had oil prices stayed high. "He was paying top dollar at a time when prices were peaking," says Christopher O'Sullivan, president of Paloma Resources, which had agreed in early 2014 to sell McClendon its acreage in Ohio. But the deal never got done. Two weeks before closing in early 2015, O'Sullivan says, McClendon admitted "he didn't have the money to close the deal." Why not? A McClendon spokesman says in an e-mail that the company "subsequently determined not to complete the transaction for a variety of good reasons" but refused to elaborate.

Meanwhile, it's been months since American Energy announced a new acquisition, and McClendon has been busy, looking for new money. In early April McClendon filed with the SEC an IPO prospectus for a startup called Avondale Acquisition Corp. Avondale is an SPAC—that pre-2009 creature that has no assets and no operations and exists merely to use stock to buy things. McClendon hopes to raise $230 million in an Avondale IPO, which could come soon.

McClendon also aims to access $4 billion through two private investment funds. He formed the first, called American Energy Capital Partners-Energy Recovery Program, in partnership with American Realty Capital. The other, Energy 11, is backed by the management of Apple Hospitality REIT, which made money in deals with Chesapeake years ago. Both ventures describe themselves in SEC filings as being "blind pool" offerings, with no existing operations other than the vim and vigor of McClendon, who will manage the cash as he sees fit.

Caveat emptor. A close read of the lengthy "Conflicts of Interest" section of the American Energy Capital prospectus finds that McClendon, as manager, owes no fiduciary duty to the partnership. He can even sell it oil and gas assets he already owns. And after doing so, he will continue to be paid management fees, "which may result in a profit" to his company. A McClendon spokesman insists he has no intention of selling his own oil and gas assets to the partnership.

Neither Raymond nor the Energy & Minerals Group has any piece of these offerings. Even now, with oil back to $60 a barrel, shares in the best-performing oil companies are down 20% from June 2014 highs; Chesapeake is off 50%. A generous estimate has EMG and First Reserve sitting on paper losses of $2 billion in American Energy deals. A spokesman for McClendon disputes this figure.

"He got out over his skis on this last round," says O'Sullivan. In April he finally squared away a deal to sell his Ohio acreage to Gulfport Energy Corp. for $300 million. Still, O'Sullivan wishes McClendon luck. "He's maybe recklessly aggressive at times, but I admire his conviction and I always liked doing business with him. His style appeals to me."

McClendon's next big idea: According to a source close to the matter, he's eyeing 16 million acres in northern Australia's McArthur Basin, where there might be 200 trillion feet of shale gas waiting to be drilled, chilled and shipped to Asia as liquefied natural gas. Just think: a whole new continent, ripe for the fracking. What could possibly go wrong?

STAN HONDA / AFP / GETTY IMAGES; TIMOTHY ARCHIBALD / BLOOMBERG; WALLY MCNAMEE / CORBIS

FINAL THOUGHT

"Oil is a resource that anesthetizes thought, blurs vision, corrupts."

—RYSZARD KAPUSCINSKI

BY THE NUMBERS

A LONG WAY, BABY?

Five percent of the top 500 U.S. companies are now run by female CEOs. Though that's hardly gender parity, women's ascent in corporate America is accelerating. Who knows—maybe we'll hit 15% by 2030.

2015

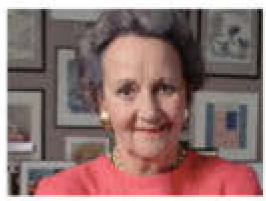
FEMALE CEOS:
25 (5%)

TOP:
Mary Barra,
General Motors
(No. 7 of 500)

2000

FEMALE CEOS:
2 (0.4%)

TOP:
Carly Fiorina,
Hewlett-Packard
(No. 13)



1985

FEMALE CEOS:
2 (0.4%)

TOP:
Katharine Graham,
Washington Post Co.
(No. 323)

SOURCE: CATALYST ANALYSIS OF THE 500 LARGEST COMPANIES BY REVENUE (2000 AND 1985) AND S&P 500 (THROUGH JANUARY 2015).

JILLIAN EDELSTEIN FOR FORBES

Merchants Of Parallel Worlds

Improbable invented a new way to simulate almost any complex system in software. Warriors, gamers and economists are extremely interested.

BY PARMY OLSON

Inventing the what-if machine: Improbable's Herman Narula and Rob Whitehead in the pool of Narula's family home in North London.

Every Friday just after lunch, the videogame developers at Bossa Studios in London's East End take a break from all the coding to try out their own work. This spring they've been putting the finishing touches on Worlds Adrift, a so-called massively multiplayer online role-playing game in which thousands of people float across a virtual sky on ships, attacking one another. They're hoping to build the next World of Warcraft, an MMORPG that grossed more than $1 billion last year.

Bossa's game could be even better, because it will be more real. Bossa turned to Improbable, another startup 2 miles to the west, which has invented a new way to simulate extremely complex systems. A floating fantasy world is a perfect candidate for Improbable's sim software. Traditional MMORPGs like World of Warcraft have to take serious shortcuts around reality to simplify the computational load for the game. You can slay a dragon, for example, but it will respawn for thousands of other players to slay, too. But in Worlds Adrift, one player kills a dragon and it's really dead. One day in March, as Bossa's coders were play-testing their game, they picked up a flare gun meant only for signaling and threw it at another player; sure enough it caused a red flash on the screen, indicating an injury. "They hadn't coded it as a weapon," says Bossa Studios cofounder Henrique Olifiers, but because the simulation was based on complex principles of physics and biology, any physical object hurled with speed did damage. The result was a world almost

as unpredictable as the real one. "We never know what the game is going to be like," he says.

Improbable was founded two and a half years ago by Herman Narula and Rob Whitehead, a pair of hyperkinetic computer scientists from the University of Cambridge. In their ground floor office on a bland-looking block in Farringdon, a team of about 60 engineers from MIT, Goldman Sachs and Google sit at $40 desks writing code that could dramatically reshape not only how we play games but how large organizations make decisions.

Worlds Adrift, launching this autumn, will be the first public application of Improbable's technology. Samsung has talked to the company about running simulations for its Internet of Things devices, and economists from Oxford are using it to run models of the U.K. housing market. Improbable is also "talking heavily" to Britain's Ministry of Defense, says Narula, the startup's high-octane CEO. He's tight-lipped about most projects because of contractual obligations but says Improbable has booked revenue in the single-digit millions of pounds since launching. In March it raised $20 million from Andreessen Horowitz at a $100 million valuation, making it one of only two startups in London to take money from the Silicon Valley venture firm. "We see a lot of stuff, and we'd never seen anything like this," says Chris Dixon, who led Andreessen's investment.

Improbable's software is designed to simulate systems on an unprecedentedly massive scale: the economics of a national health care system; a nation suffering a virulent infectious disease outbreak; or the cascading effects of a hurricane on a 100-mile stretch of inhabited coastline. Improbable's tech can also replace the mundane testing that websites run all the time on users with a far richer series of tests on simulated humans in parallel virtual worlds.

The leap Improbable made is in how dramatically it reduces the processing power needed to run complex, custom simulations. Instead of waiting for programs that move data from one server to another, Improbable unleashes a swarm of programs that dip in and out of the servers all at once. Clients provide Improbable with their own "worker programs" that contain all the main components of a simulation, while Improbable manages the hard part of running the components on cloud or client servers, acting as a kind of operating system. The effect is a tool that could do for simulations what Amazon Web Services did for cloud computing. Some simulation features can even be shared between clients as part of a growing library of programs. "Improbable is trying to be the world's 'what if' machine," says Narula.

Born in Delhi, India, Narula moved to the U.K. when he was 3. His father, Harpinder Singh Narula, ran a successful family construction business operating in Africa, India and the Middle East, and sent his son to the elite Haberdashers' Aske's Boys School for high school. Narula's two brothers, the older more than eight years his senior, went on to work in the family businesses, but Narula wanted to code, teaching himself to write in C++ at 12.

While studying computer science at Cambridge he met Rob Whitehead, a Liverpudlian who had paid his way through college by selling weapons on the virtual-world site Second Life. They began working on an ambitious virtual-world videogame in which you could drop an object, then log back in the next day and find it still there. When they couldn't find software to help them scale up, they built the tools themselves. "Eventually we realized the tech we were working on was bigger than the game," says Whitehead. In early 2012, just months before he was due to graduate, Narula told his parents he was ditching the family business to run his own startup. "It was a bit of a shock," he says, giving up an inheritance that could have been in the hundreds of millions of dollars.

Narula borrowed $1.5 million from friends and family to get Improbable through its first two and a half years in a converted barn next door to his family home in North London, where about a dozen early staffers ate, slept and coded. Narula and Whitehead held interviews in their shower room.

Narula has no regrets about sidestepping the family business. "People think there's security in great wealth and that people who make it in a big way must come from a hungry background." For Narula it's enough to want to "build worlds and daydreams. Look at the stars. I can't go there, but I can build the worlds myself."

FINAL THOUGHT

"If our brains were simple enough for us to understand them, we'd be so simple that we couldn't." **—IAN STEWART**

GADGETS WE LOVE

TIES THAT BIND

We used to think that both the bungee cord that keeps our trash raccoon-free and the twist tie that keeps our English muffins fresh couldn't be improved upon, until we got our fingers on Gear Ties (niteize.com; from $4.49)—strong, pliable, reusable wire cables sheathed in grooved rubber for a faultless grip. The colorful ties vary in length from 3 inches to 64, making it simple to secure and de-clutter everything from the spaghetti tangle of your computer and earbud cords to the camping gear you'd rather not have slide off your car's roof at highway speeds. Never a Boy Scout? Not a problem. No knots are necessary; just grab and twist for a tight hold. They'll keep all your goods secure—until raccoons develop opposable thumbs, anyway.

ENTREPRENEURS

INVENTING AN INDUSTRY

It's Pondemonium!

Greg Wittstock pretty much invented the backyard-pond industry, but with family conflicts, soaring and then falling sales and a collapsed roof, his life sounds like reality TV.

BY KARSTEN STRAUSS

Selling the lifestyle: "Everybody wants a water feature. They just don't know it yet."

In 2005 Greg Wittstock built what he says was the largest sloping green roof in North America to cover the parking lot at the headquarters of Aquascape, a backyard-pond company he founded outside Chicago in 1991. Topped with a layer of earth and prairie vegetation, the roof was part of a complex Wittstock ordered when Aquascape was enjoying explosive growth and seemed on its way to surpassing his goal of $100 million in annual revenue. The project featured Koi ponds, babbling waterfalls, a mini soccer field, a batting cage, a basketball court, a gym and a spa.

But by February 2011 the roof had caved in on Aquascape, first figuratively: When the real estate market collapsed in 2008, the backyard-pond business collapsed with it. And then literally, when 700 feet of steel-reinforced ceiling collapsed under the weight of 2 feet of snowfall turned to ice. Luckily, the roof came down on a Sunday, when nobody was on-site, but by the time construction crews swept up, Wittstock had seen his revenue cut in half to $29.5 million and he'd had to lay off almost 45% of his staff.

Today the roof has been fixed, and Wittstock says Aquascape is growing again: "We had to strip and rebuild the whole business from the ground up." A motivational poster depicting the collapsed roof hangs on an office wall, showing Wittstock and his managers in the foreground, wearing hard hats and stern expressions, beneath the word "perseverance."

Now 45, Wittstock first got his hands dirty in the pond business when he was 12. After his father, Gary, an engineer, uprooted the family from New Jersey and moved them to Wheaton, Ill., he promised his son he'd build a pond for his pet turtles. "It leaked, turned green and my prized turtles migrated away," says Greg. But the experience proved invaluable. "It became my backyard classroom because every year I'd rip it out and rebuild it," he says. "My pumps were clogging, so I put them in a garbage can—that was my first skimmer. My ponds were turning green, so I used a cattle trough—that was my first biological filter."

Eventually others started admiring his creations. "I thought, there's gotta be a business here." In 1991 Wittstock, then a junior at Ohio State, built five ponds, netting him $11,000. The following August interest spiked after a *Chicago Tribune* article on his work, and he collected $36,000 in deposit checks in one day.

When Wittstock's father joined the venture, it was as an equal partner. A brief collaboration, however, led to a decadelong feud. "My dad believed that the key to success was the engineering of the products," says Greg, "and I believed that the key to success was selling the lifestyle."

Tired of the friction, Gary left Aquascape in 1996 and started his own pond-accessory business, PondSweep. "My goal was to build a better filter I could sell to Greg," Gary says, "but Greg was so angry that he really didn't want to buy filters from me." Instead, they became competitors and stopped speaking. At its peak PondSweep hit almost $7 million in sales, then faltered.

In 2006 Greg bought the company's remaining assets, and Gary now works for Aquascape's social media team. "We've never

JEFF SCIORTINO FOR FORBES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* EXACT AND EXULTANT

had an issue since he's come back into the business because I'm the sole owner," says Greg. Gary has a gentler view: "I think we appreciated each other more because we'd been separated for a while."

After his father left, Wittstock tried franchising but couldn't find contractors willing to pay $50,000 for franchise rights. So he taught the contractors his pond-building system through demonstrations and a certification program, mandating that they use his equipment. "It's a franchise system without a franchise fee," he says.


Pond envy: The typical customer who buys a pond, Wittstock says, will eventually upgrade twice.

The average specialty contractor builds 30 to 40 ponds, or "water features," a year. Wittstock says customers who buy a pond generally upgrade twice, usually to an 11-by-16-foot kit for about $10,000: "Everybody wants a water feature. They just don't know it yet."

His annual pond-building events have grown to include hundreds of contractors and enthusiasts. Every year at the largest of these shindigs, dubbed Pondemonium, Wittstock throws the spotlight on his "Top Frogs"—those contractors who buy the most merchandise from him (in his heyday he gifted them Escalades and Hummers as prizes). Steve Shinholser of Premier Ponds in Burtonsville, Md., who won last year's top honors for selling more than $1 million worth of pond gear, says in 14 years he's never built a pond without Aquascape equipment.

Sipping ice tea from a 70-ounce Bubba Keg mug, Wittstock gazes out his office window at his own pond—a 650,000-gallon, self-supporting ecosystem with an underwater cave and a grotto. It was completed in 2008, the year real estate values tanked and homeowners stopped spending money on landscaping. Suddenly, he says, "everything I did I had to filter through the budget, where before I had no budget because I had double-digit growth every year."

Three rounds of layoffs cut Aquascape staff from 195 to 110, some of whom exited bleating expletives and damnation. A professional turnaround specialist—hired as president in 2007—alienated managers and left after 18 months, replaced by CFO Colleen Heitzler, who still runs the day-to-day. "I'm not a manager," Wittstock says. "I'm a visionary."

The future he envisioned included selling a rainwater-retention system that never lived up to expectations and catering to hobby builders by developing entry-level pond kits and components. Today do-it-yourselfers represent 30% of Aquascape's retail sales. To reach the uninitiated, Wittstock attacked social media, launching a Facebook page and a YouTube channel that's up to 9 million views.

And slowly the pond industry is climbing back. Last year Aquascape netted $2.8 million on $35 million in revenue, and it projects double-digit growth this year. One competitor, New Jersey-based Savio Engineering, had $6 million in sales in 2014 and is seeing a 15% increase this year, says its president, Valerie Steele, who adds that Wittstock's promotion of the industry benefits everyone. "I think one of his better skills is marketing," she says.

Wittstock now has his own reality show to sell the aquatic lifestyle. Premiering last September on Nat Geo Wild, *Pond Stars* saw Wittstock and pals tackling pond builds in various locations while enduring each other's friendly ribbing. Though the show attracted a cult following, its ratings were lackluster and Nat Geo declined to renew the series.

So Wittstock took over, renaming the show *Aquascape Pond Squad*, installing a production studio in his offices and shooting episodes at $25,000 a pop to air on his YouTube channel. "As long as consumers can find the content," he says, "I'm happy."

Wittstock still thinks he can turn Aquascape into a $100 million business eventually, in part because his contractors know what they're doing now. "When it was the heyday," he says, "they were making money by osmosis. Today they're making money because they're good." *

FINAL THOUGHT

* *"Remember you are half-water. If you can't go through an obstacle, go around it. Water does."* —**MARGARET ATWOOD**

TRENDING

What the 70 million Forbes.com users are talking about. For a deeper dive go to FORBES.COM/ENTREPRENEURS

PERSON
WILLIAM HSU
While many accelerators work with dozens of companies a year for three months each, Hsu's MuckerLab mentors just ten or so, for the whole year. Pitching him? Don't say you have no competitors.

IDEA
BETTER HEAD-SHOP DESIGN
If legal pot businesses are going to overcome their seedy past, they need nice interiors: good lighting, placement of complementary products ... and odor mitigation.

COMPANY
NEW BELGIUM BREWING
The 100%-employee-owned company is now the fourth-largest craft-beer producer in the U.S. and is opening a new brewery in suds-mad Asheville, N.C.

KATHRYN SCOTT OSLER / THE DENVER POST VIA GETTY IMAGES (RIGHT)


WELLS FARGO
“The tools in the Business Plan Center are golden for anyone who’s looking to grow their business.”
Carolyn Miye
Oodles 4 Kids, est. 2012
Portland, Oregon

Little Shop Of Horology

In a field that pushes artisans toward conglomerates, MB&F's Maximilian Büsser shows that staying small—and outrageous—can be highly profitable.

BY JONATHON KEATS

Time machinist: MB&F founder Maximilian Büsser produces nearly 300 innovative watches a year with just 20 employees.

In 1998 the venerable jewelry house Harry Winston hired a 31-year-old Jaeger-LeCoultre product manager to head the company's struggling watch division. Within seven years Maximilian Büsser had boosted revenue from $8 million to $80 million and garnered industry respect by partnering with Switzerland's top independent watchmakers to produce the Opus series of ultracomplicated timepieces. To reward the young CEO, Winston offered Büsser a generous new contract—and he responded by quitting.

The trouble was a noncompete clause in the offer, which conflicted with Büsser's dream of launching his own brand. With just 900,000 Swiss francs (about $700,000) in his bank account, he didn't yet have enough money saved. But the new contract forced his hand, so Büsser left. On July 25, 2005 he incorporated MB&F—Maximilian Büsser & Friends—gambling his savings to produce his first watch.

From the start Büsser had explicit goals creatively and financially, both of which he has achieved in time for his company's tenth anniversary. Creatively, the idea was to "deconstruct traditional watchmaking and to reconstruct it as kinetic art that happens to give the time." Financially, he set out to make 300 watches a year—steampunk timepieces that often riff off his boyhood sci-fi fantasies—generating $16.8 million in revenue with a team of 15 people.

The number of employees—which he recently capped at 20—has been the most important factor for Büsser, the figure that has decided his revenue and production goals. In 2014 MB&F sold 279 watches, with $16 million in revenue. The company, which he says broke even in year three and reinvests profits, has gross margins approaching 35%.

"With a team this small, you don't need middle management," he observes. "I believe middle management is one of the biggest enemies of creativity, because their role is to take risk out of the equation."

Instead of middle managers, Büsser has "friends," and those friends are responsible for taking up the watches he conceives, realizing his horological dreams. Two friends he made at Harry Winston—watchmaker Laurent Besse and designer Eric Giroud—agreed to help him produce his first "Horological Machine," the HM1, without payment up front. (He and Giroud invested 300 hours on design alone.) His friendships with retailers also proved crucial; five of them committed to buying the first 25 timepieces based only on a hand-painted plastic mock-up, each advancing 35% of the $150,000 retail price. (Retailers did so despite their belief that his radical watch—which looked like the love child of an owl and a pair of binoculars—was "unsellable.") The cash advance pulled Büsser through, and by year three MB&F had $2 million in revenue.

For its tenth anniversary the company created the HM6 Space Pirate, a biomorphic timepiece with four domed dials and a flying tourbillon in the center. Büsser says the $230,000 watch is the most outrageous of his career, but tame compared with the concepts he has planned out to 2022. "Our clients expect to be amazed," he says. "Our biggest risk now is not to shock." F

SIDDHARTH SIVA FOR FORBES

Mall Vultures

Retail's physical struggles mean big business for two creative real estate fixers.

BY STEVE SCHAEFER

On a freezing, snow-covered Friday in early March, Andy Graiser and Emilio Amendola are standing in the parking lot of a suburban Long Island strip mall, ruminating on the evidence of drastic changes to the retail sector over the last 25 years.

One side of the strip houses a 10,000-square-foot Ulta Beauty next to Tilly's, DressBarn and Modell's. In 2012, when the pair started workout firm A&G Realty Partners, based in Melville, N.Y., that same space was almost entirely occupied by a Barnes & Noble. Going back further, a Tower Records and a Pergament paint store.

"From what it looked like before to what it looks like now, you never would have expected this," Amendola says of the mix of stores and restaurants that now make up the strip mall. Left unsaid and largely unseen is the fact that he and Graiser have played a role in driving that transformation by helping retailers extricate themselves from underperforming stores, negotiate rent reductions and optimize their real estate assets.

In today's ultracompetitive climate, retailers are finding themselves with limited options for expansion. Industrywide, net new-store growth is virtually nonexistent. Consider that U.S. shopping center space grew by an annual average of 169 million square feet from 2000 through 2008. For the last five years the pace has slowed to less than 50 million square feet per year.

Retailing is facing an existential crisis centered on its so-called footprint. Many blame the economic fallout from the financial crisis and recession, but the real culprits are digital and mobile alternatives from the likes of Amazon, Wayfair and Tire Rack. The new 80-million-strong wave of Millennial shoppers—representing $1 trillion in spending—are anything but mall rats. So, many real-estate-centric retailers are scrambling, and that makes for a booming business for A&G Realty's Amendola and Graiser.

Over the last two decades the pair have renegotiated and mitigated more than $6 billion in leases and worked on nearly 30,000 properties, mostly for onetime retailing greats like CompUSA, Blockbuster and Borders. A&G typically charges from 3% to 10% of gross proceeds on leases or properties sales. The recent sale of a distribution center for bankrupt retailer Delia's for $4 million, for example, netted A&G an estimated commission of $120,000. Its work with Borders brought in more than $1 million.

Long Island native Graiser is the idea man, opining on the industry's future and how lack of new development and concern for liquidity has prompted retailers to make acquiring leases an effective growth strategy. Amendola, a Bronx-raised son of a barber, is the numbers man.

RadioShack is a client. When its efforts to avoid Chapter 11 failed, A&G sold dozens of

For retailers, A&G Realty's Andy Graiser and Emilio Amendola are both undertakers and obstetricians.

MATT FURMAN FOR FORBES

leases, many to GameStop, before the filing.

Amendola and Graiser started working together in the early 1990s, managing the real estate portfolio of New York's Dabah family, which controlled jeansmaker Gitano Group and retail chain the Children's Place. In 1992 the 170-store Children's Place was lurching toward bankruptcy after losing as much as $69 million in one year, but the team was able to settle with landlords for 35 cents on the dollar, avoiding a Chapter 11 filing.

Amendola, Graiser and a third partner then struck out on their own under a new banner at DJM Realty, specializing in distressed situations. A key assignment came in 1995 when Fashion Bug, a subsidiary of Charming Shoppes, hired DJM to close 290 stores and try to renegotiate rents on the rest of its 1,400-store chain. The mandate was seen as a no-win proposition.

"They already had bankruptcy counsel ready to go," Graiser recalls. Because of its puny size and short track record, DJM partnered with the larger Boston-based liquidator, Gordon Brothers.

"They had all kinds of systems and staff, and we were there with our pencils and legal pads," Amendola recalls. DJM ran circles around its larger teammate. "Fashion Bug was the deal that put us on the map," Graiser says.

It also opened the eyes of Gordon Brothers, which acquired DJM in 1998. A deal with Toys "R" Us showcased DJM's workout creativity. In 2003 the chain was closing Kids "R" Us and trying to get out of other locations. Major REITs wanted to buy their leases for pennies.

"They were always the first tenant in a shopping center, so they had cheap rents and long-term deals that lasted forever," Amendola explains. "They had every right a tenant could want; the landlords would have loved to get those leases back." When he and Graiser saw the landlords' paltry offer—about $60 million for the 127 stores—they phoned Toys "R" Us management.

"They gave us 120 days," Graiser recalls. So for three days the duo took a hotel suite during a shopping-center convention in New York.

"We had a different retailer coming in every half hour," Amendola says, "and we made sure that when Staples came in Office Depot was right behind them, so they'd see each other."

Office Depot wound up offering $200 million for all 127 leases in one neat transaction. The deal uncovered Toys "R" Us' hidden real estate value. Then in 2005 KKR, Bain and Vornado Realty Trust bought the retailer for $6.6 billion.

Despite successes like Toys "R" Us, Amendola and Graiser thought working under liquidator Gordon Brothers was less than ideal, because the stigma made healthy clients shy away. The two quit and launched A&G Realty in 2012.

Today, Graiser says, A&G is doing just as much with healthy retailers as distressed ones. It has been helping furniture chain La-Z-Boy expand, Yum Brands exit KFC locations and CVS renegotiate leases. The 11-person firm has 21 current projects involving 1,800 locations.

Back in the parking lot in Huntington, N.Y. Graiser points to the nearby Walt Whitman Shops, a traditional mall turned "inside out" by owner Simon Property Group, with restaurants and entertainment luring customers. Importantly, store entrances like those to Pottery Barn and Gap open directly to the parking lot. It's a potentially mall-saving trend.

One by-product of digital growth is a shrinking of retailer footprints. Big boxes and vast, time-sucking indoor malls are out, while lower-cost strip malls that offer everything from urgent care to organic grocers are in.

Graiser also notes that digital disruptors like Amazon and eyeglass merchant Warby Parker may move toward strategic physical outposts. "Millennial customers shop very differently, and retailers have to learn from it," says analyst Dana Telsey. She points to Macy's, which plans to hire 150 employees for a new San Francisco-based digital unit. Williams-Sonoma spent $42 million last year on its e-commerce effort, which produced more than half its revenue. Kroger is expanding in organic food, but it also just bought analytics firm dunnhumbyUSA.

Telsey argues that technology rivals real estate as firms try to stay ahead of Millennial trends. "It has to be a regular part of how retailers use capital," says Telsey, citing the latest twentysomething-inspired shift. "There's a reason restaurants, gyms and hair salons are growing," she says. Whether it's a GameStop or a Drybar or a Starbucks moving in or out, upheavals in retailing cause Amendola's and Graiser's smartphones to start buzzing. And that's music to their ears. *

FINAL THOUGHT

"Capitalist economy is not and cannot be stationary. ... It is incessantly being revolutionized from within by new enterprise." —JOSEPH SCHUMPETER

TRENDING

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COMPANY
SHAKE SHACK
Extraordinary valuation and minuscule store count can't stop the trendy burger chain's galloping stock price.

PERSON
SETH KLARMAN
Billionaire investor takes the other side of David Einhorn's big shale oil short; bets on Pioneer Natural Resources.

IDEA
NEW LIFE IN LEFT-FOR-DEAD EQUITIES
Verizon's $4.4 billion AOL pickup shows there's still some value in maligned no-growth names.

WILLIAM BALDWIN // INVESTMENT STRATEGIES

ALPHA, BETA, GOTCHA

IN 1999 IT WAS dot-com new issues. In 1957 uranium mining stocks were hot. In 1637 investors were overweight tulip bulbs.

An ever present hazard on Wall Street is the risk of falling prey to an investing fad. I see one building right now. I can see it by looking at the press releases that float in over the transom. The frenzy of the moment is "smart beta."

A beta coefficient, by itself, is a legitimate measure of the risk in a portfolio. If it's 1.5, then the portfolio is expected to lurch up 15% when the market goes up 10%, or down 15% if the market goes down 10%. A fundamental law of investing says that risk cuts both ways.

Smart beta is a little less fundamental. It's the notion that you can beat the market by fiddling with the buttons on your stock screen. You could, for example, change the way you weight the positions in a portfolio. Instead of holding stakes proportional to each company's market capitalization, as stock indexes traditionally do, you could weight them equally or weight them according to book value, dividends or earnings.

Like all fads, this one worked at the beginning. Robert Arnott, an innovator in alternative portfolio weights, has done very well with a business built on Rafi (Research Affiliates Fundamental Index) stock-weighting formulas. You can get Rafi-flavored mutual funds and exchange-traded funds.

GAINS WITHOUT THE PAINS? DON'T KID YOURSELF

And as with all fads, the innovators were followed by imitators and the imitators are now being followed by idiots. Scores of smart-beta funds are drawing in late-coming customers. They have hoovered up $400 billion or so of investor money.

A variation on the theme, reaching fever pitch in product announcements, is "low-volatility" investing. (Low-volatility stocks are not synonymous with low-beta stocks, but there is a lot of overlap.) Here in my in-box is a press release trumpeting a whole suite of low-vol funds. The declared aim is "taking advantage of the equity market's potential upside while providing protection from potential downturns."

Wouldn't it be great to outsmart beta? To have some system for getting 100% of the gain but suffering only 80% of the loss?

The grand idea started when academics discovered an "anomaly" in stock prices: Low-beta stocks like Kroger and Visa have done better than you would have expected, given their lower risk. In theory you could have mechanically harvested a pile of low-beta stocks, leveraged up the portfolio to where it was just as risky as the overall market and then beaten the market by a mile.

Alas, moneymaking anomalies don't persist. Once they are discovered, they are priced away. Given the popularity of ETFs chasing after low volatility, it's a good bet that low-beta stocks are collectively overpriced now.

In 2011 this column gave a favorable mention to Arnott's weighting scheme, suggesting that it was a way to bet against market fads and lighten up on overbought sectors. It might be able to deliver an extra half a point a year of performance, I guessed. Nowadays, with all the copycats on Arnott's tail, I'd temper that prediction. Maybe you'll land an extra quarter of a point. Consider the **POWERSHARES FTSE RAFI U.S. 1000 ETF (PRF, 94)**, but don't expect wondrous performance.

As for the many imitators who are turning Arnott's idea into a hype factory, be wary. I went looking for a poster child of the smart-beta phenom and found something called First Trust Multi Cap Growth Alphadex ETF. It's an equally weighted collection of 495 stocks scientifically selected to generate "alpha," which is a fancy way of saying that you beat the market.

Do you? Over the past five years the Alphadex product, which costs 0.7% a year, has earned a compound annual 15.6%. You could have done 16.2% with a plain old S&P 500 index fund costing a tenth as much.

Best of all is the ticker for the Alphadex fund. It's FAD. F

THOMAS KUHLENBECK FOR FORBES

GO TO FORBES.COM/SITES/BALDWIN FOR MORE ON TAX-WISE INVESTING STRATEGIES.

JOHN W. ROGERS JR. // THE PATIENT INVESTOR

HURRY UP AND WAIT INVESTING

SOMEHOW "PASSIVE" has become the investing theme of the moment. Tons of money is flowing into index funds and ETFs. I am also hearing about "the death of active management." I've heard about the death of a lot of things in my time—radio, television, pen and paper—and they're all still here. Meanwhile, plenty of experienced, highly active managers are earning their keep.

For decades many active managers were at odds with the academic community. Most studies have suggested that active managers cannot dependably outperform the market. Vanguard has built a giant business capitalizing on this widely held belief. One professor from the University of Notre Dame, K.J. Martijn Cremers, has come to active mutual fund managers' defense with his "Active Share" metric.

His 2006 paper, coauthored by Antti Petajisto, was called "How Active Is Your Fund Manager? A New Measure That Predicts Performance." Active Share quantifies how much an actively managed portfolio differs from a benchmark. A fund with 0% Active Share would be identical to the benchmark, while a fund with a 100% Active Share would have no overlapping exposure. The paper concluded that low Active Share portfolios, on average, were basically doomed to underperform, while high Active Share portfolios (of 80% or more) had a shot at outperforming. In other words: Don't "hug" the index.

IS YOUR MUTUAL FUND MANAGER AN INDEX HUGGER?

Cremers, now working with Ankur Pareek of Rutgers Business School, has a new paper: "Patient Capital Outperformance: The Investment Skill of High Active Share Managers Who Trade Infrequently." Its first sentence clearly lays out the main point: Among high Active Share portfolios, only those with patient investment strategies—holding stocks at least two years—outperform.

The dense paper, full of mathematical equations, essentially boils down to a few key findings that most serious value investors already know. Don't be afraid to deviate from the norm, invest in contrarian stocks in which you have high conviction, and be very patient. Here's how the paper concluded: "Our results thus suggest that Warren Buffett's investment skill seems generally shared by mutual fund managers in the top Active Share and Fund Duration quintiles."

Here are three of my highest conviction (Active Share) equity picks. You will note that they aren't the kind of stocks most index-hugging mutual fund managers would have much interest in.

One-hundred-and-one-year-old **BRADY CORP. (BRC, 26)** of Milwaukee is an identity-solutions company that recently made up 3% of Ariel Fund assets—but just a 0.1% position in my Russell 2500 Value benchmark. In Cremers' terms that contributes a 3% Active Share to the portfolio's overall score. Brady began life as essentially a sign company, made a huge stride in the 1940s with self-adhesive "wire markers" to help electricians and now has more than 50,000 products—from employee IDs to sorbents—that identify things for the sake of safety and efficiency.

It's not an especially glamorous business, but it's a necessary one—and Brady is the leader in the field. New CEO J. Michael Nauman is going to concentrate on organic growth, not acquisitions, so I think its forward price/earnings ratio of 14 makes it look even cheaper than it will a few years from now.

One of the newer stocks in my portfolio is industrial tool and coating specialist **KENNAMETAL (KMT, 38)** of Latrobe, Pa. A 3.2% holding in my fund, it makes up just 0.1% of the benchmark index. Kennametal is one of just three players in its essential, niche industry—along with Swedish firm Sandvik and Berkshire Hathaway's Iscar. Lately, demand for Kennametal's products has been a bit tepid from some core customers, but long term I think demand will rise. The stock trades at a forward multiple of less than 16.

Finally, there is Chicago's **ANIXTER INTERNATIONAL (AXE, 71)**, an industrial cable and wire distributor. It represents about 0.1% of the index, but I have committed 3.1% of my fund to it. A lot of people seem to think it's a very cyclical business that goes up and down with copper prices. I see it as a company that increasingly adds value through logistics and makes itself necessary to customers' supply chains. It sells below 13 times earnings, a substantial discount to the market.

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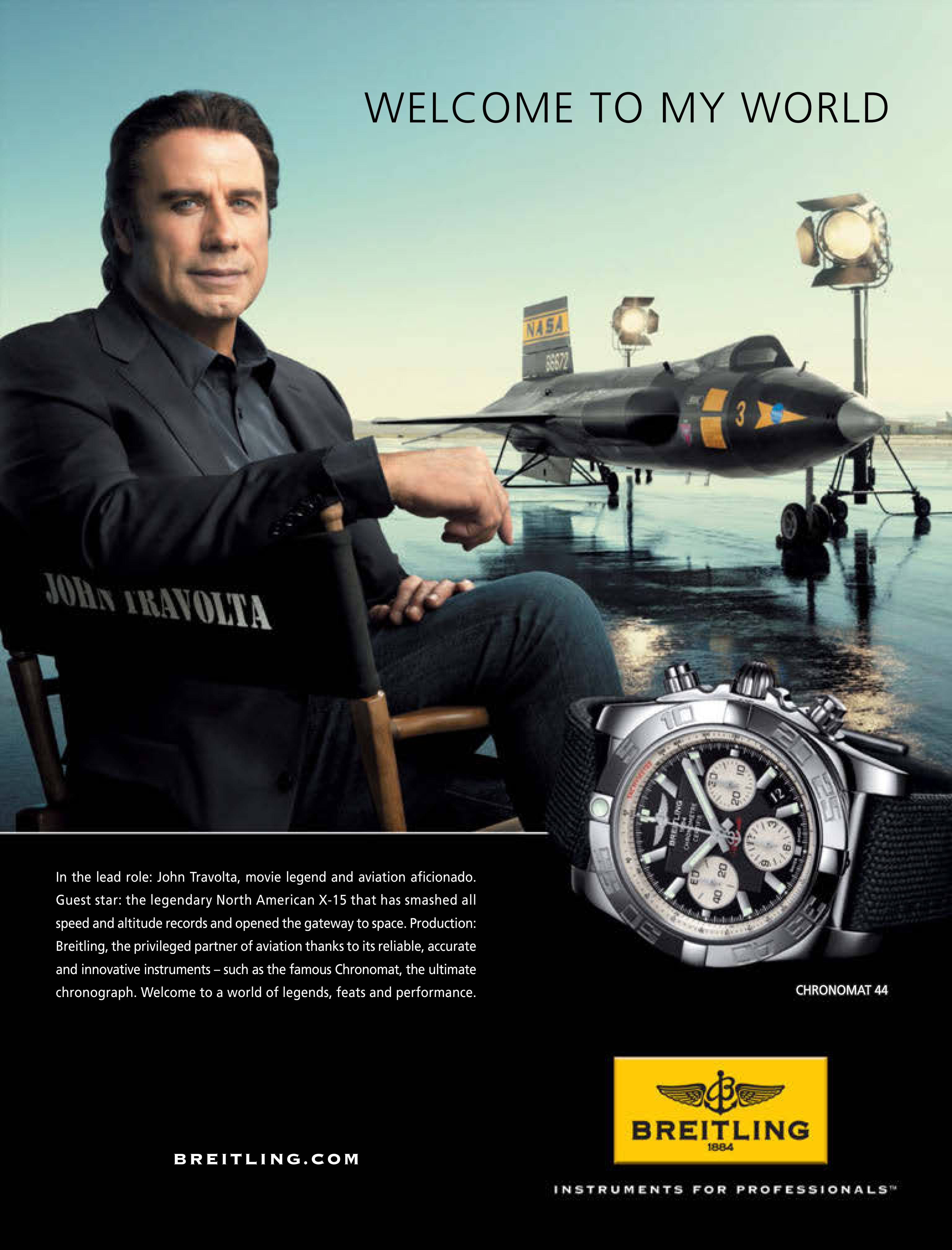
THOMAS KUHLENBECK FOR FORBES


WELCOME TO MY WORLD
NASA
3
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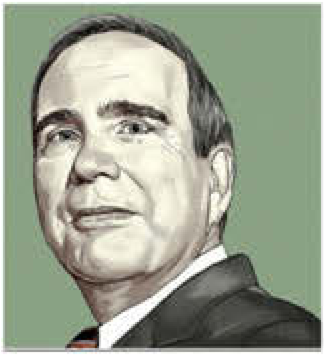
THE DEFCON APPROACH TO INVESTING



I RECENTLY ATTENDED John Mauldin's Strategic Investment Conference, an annual event that brings together some of the best minds in finance and economics. With some two dozen speakers in two and a half days, the word "intense" best describes the proceedings. I came away thinking that the world is not on the brink of crisis but that crisis is an ever present concern. Most could see a bright future, if only we could transition smoothly from the significant, self-inflicted problems we have amassed since the 2008 downturn.

Most of the speakers identified the major financial bubbles currently threatening our economy—from junk bonds to housing prices and the U.S. dollar—but offered few solutions. After all, we are in uncharted waters today, and neither the Federal Reserve nor Congress really knows which way to go. Our world has become so interlinked that no one wants to take actions that could start a currency or trade war. We live not in a world of policy action but of policy reaction. The Fed and the European Central Bank have become firemen, not statesmen.

The current state of the world argues for defensive posturing. The consensus is that we will not restore normal economic growth without some trauma. While the timing of the next crisis is uncertain, history tells us that overstaying in the market is more costly than getting out early. But is it too early? Since the timing, depth and origins of any crisis are uncertain, let's take a chapter out of the U.S. military's playbook for dealing with threats. They use the term DEFCON, which means Defense Readiness Condition or an alert state. For the purposes of your portfolio, think of DEFCON as Defensive Financial Condition:

THE WORLD IS NOT ON THE BRINK OF A CRISIS, BUT CRISIS IS AN EVER PRESENT CONCERN

DEFCON 1—This is where I judge we are today.

- Keep a balance of cash of at least 10%.
- Invest up to 10% in gold (GLD) and silver (SLV) ETFs.
- Set trailing stop-loss orders on your holdings with long-term gains.

DEFCON 2—Volatility breaks out in the markets driven by a buildup of negative events either here or abroad.

- Increase your cash position to 15%.
- Take all your long-term gains; hold off on taking losses until year-end.
- Set trailing stop-loss orders on all your low-dividend/interest-paying holdings.
- Invest up to 15% in gold (GLD) and silver (SLV) ETFs.
- Buy out-of-the-money puts on ETFs that best mirror your remaining exposed positions.
- Buy some inverse ETFs tied to indexes to offset value declines in your holdings. To short stock indexes I recommend the ProShares lineup; for the Dow 30 use **(DOG)**, for the S&P 500 **(SH)**, for the QQQ **(PSQ)** and for the Russell 2000 **(RWM)**.

DEFCON 3—A panic has begun somewhere that has spilled over into the securities markets.

- Liquidate all low- and no-income equities.
- Keep ready cash at home as well as gold.
- Be patient. Turn off the financial TV shows. Free advice is worthless. Let events play out because corrections involve several levels of action and reaction.

DEFCON 4—The crisis is well under way, with no end is in sight. Central banks are pursuing conflicting goals.

- Go to the mattresses (for example, cash, gold and silver).

Investors who need steady income should be aware that while bonds, preferred stocks, MLPs and REITs also decline in a crisis, they will normally continue to pay out interest and dividends and will be among the first to recover because of their high payouts. Hence, you may opt to ride out the volatility in an income security.

While I have faith that central bankers have learned much about how to handle the next crisis, their first priority will be to protect the banking system and their bosses, i.e., the government. Not investors. When the crisis hits you will hear lots of happy talk designed to calm rather than inform. One former Fed governor at the conference, Larry Meyer, concluded with these encouraging words: "Good luck—you'll need it."

THOMAS KUHLENBECK FOR FORBES

RICHARD LEHMANN IS EDITOR OF THE *FORBES/LEHMANN INCOME SECURITIES INVESTOR* NEWSLETTER AND PRESIDENT OF LEHMANN LIVIAN FRIDSON ADVISORS. FOR MORE INFORMATION FOLLOW HIM AT FORBES.COM/LEHMANN.

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Features June 15, 2015

In 1995 Web-design instructor Lynda Weinman bought the URL Lynda.com as a resource for her students. It grew into an educational empire. In May she sold it to LinkedIn for $1.5 billion. Class dismissed.
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ETHAN PINES FOR FORBES

PHOTOGRAPH BY JAMEL TOPPIN FOR FORBES
MAKEUP BY LAUREN ANDERSEN FOR AVON AT THE WALL GROUP; HAIR BY RENATO CAMPORA USING ORIBE HAIRCARE FOR THE WALL GROUP; WARDROBE STYLING BY EMILY CURRENT AND MERITT ELLIOTT FOR THE WALL GROUP; DRESS BY ROKSANDA LLINCIC; BONE HEELS BY JIMMY CHOO. US.JIMMYCHOO.COM.

Natural Woman

BY CLARE O'CONNOR

Actress Jessica Alba has quickly built a personal $200 million fortune, and she's done it the hard way, in a field that has nothing to do with showbiz.

It's Kombucha Thursday at the Santa Monica headquarters of The Honest Company, which means that groups of young, stylish workers gather at communal tables in a converted toy factory to slurp fashionable fermented tea. Jessica Alba, Hollywood star and company cofounder, sits in the adjacent room. She'll join her troops shortly, but for now she's transfixed by a box of tampons that looks more like it holds an expensive candle than Kotex. "Dope!" she declares, approvingly.

"We're using all-organic cotton and plant-based polymer and a bio-plastic applicator," says the 34-year-old actress earnestly, contrasting that with the plastic content of drugstore tampons and their effect on hormones. Honest's new feminine care line launches in July.

Alba can go similarly deep on almost all of The Honest Company's 120 products, whether the ingredients in a new organic beeswax sunscreen or the clever insulation pocket hidden inside a chic $170 vegan-leather diaper bag. Yes, she has a pretty face—it seems as if every men's magazine has named her the most beautiful woman in the world at some point—but it's the details from which great fortunes stem.

Details and hard work. Alba laughs about how she once worked an 86-hour week as the star of James Cameron's sci-fi TV series, *Dark Angel*—the series that launched her career. Now, she says, she spends those 86 hours at a vintage teal blue desk, overseeing marketing and brand development for a company that feeds a growing demand for safe, nontoxic products, particularly among young helicopter parents who treat children—and what goes near or inside them—like porcelain.

Safety sells. The Honest Company has experienced an absurd level of growth. In 2012, its first year selling products, it hit $10 million in revenue. By last year it was $150 million, and industry insiders are predicting over $250 million this year. The company is focused on growth over profits, boasting a current valuation to match: $1 billion.

That figure means Alba, who owns between 15% and 20% of the company, according to a source with knowledge of her investment, is sitting on a fortune of $200 million. She's on her way to earning a spot on FORBES' new ranking of America's Richest Self-Made Women, just $50 million shy of Beyoncé and Judge Judy, who are tied at number 49. The only other two celebrities to make the inaugural list are Oprah and Madonna. The difference is that foursome made their money in their core field, media and music. Alba, at a young age, has done it in a completely unrelated industry. But ask Alba and she'll tell you she and Honest are just getting started. "If we really want to make a difference in the world and people's health, it's billions and billions of dollars, not just one," she says, surveying the open-plan company floor from a conference room above its wooden rafters.

LIKE MOST GREAT ideas, The Honest Company was inspired by a need that wasn't being filled. In 2008 Alba was newly engaged to Internet entrepreneur Cash Warren and pregnant with their first child. At a baby shower thrown by family and friends, she remembers her mother advising her to use baby detergent to prewash the piles of onesies she'd received as gifts. She used a mainstream brand and immediately broke out into ugly red welts, harkening back to a childhood spent in and out

Women To Watch

WHO WILL NEXT BREAK INTO THE TOP 50 RANKS OF THE MOST SUCCESSFUL SELF-MADE WOMEN? OUR MONEY IS ON ALBA AND THESE SEVEN RISING STARS. THEY HAIL FROM DIFFERENT INDUSTRIES, INCLUDING ENTERTAINMENT, TECH AND RETAIL, BUT THEY ARE ALL MAKING THEIR MARK. —*Katia Savchuk*


BULLOCK

Cindy Monroe

$200 MILLION
AGE: **40.** RESIDENCE: **NEW ALBANY, OHIO**

When she was 28 and a young working mother, Monroe had an idea to help women earn extra money by hosting parties selling gifts and accessories. She held the first in 2003. Since then over 300,000 consultants have held more than 4.5 million parties for her company, Thirty-One Gifts. Revenues hit $643 million in 2014, down from $763 million the previous year. Monroe cut costs to keep up profits and is now testing new products like monogrammed pillows, wall art and fragrances.

Sandra Bullock

$200 MILLION
AGE: **50.** RESIDENCE: **AUSTIN, TEX.**

One of Hollywood's highest-earning actresses. Her production company, Fortis Films, has made 8 movies since 1998 and scored earlier with a lucrative syndication deal with its *George Lopez* sitcom. She is set to voice a villain in *Minions,* this summer's *Despicable Me* spinoff. Her performance in *Gravity* in 2013 earned her a second Oscar nod—and a $60 million payout. Bullock also owns two restaurants in Texas.

Taylor Swift

$200 MILLION
AGE: **25.** RESIDENCE: **NEW YORK CITY**

The singer has transitioned seamlessly from country starlet to pop superstar, taking home 8 *Billboard* music awards in 2015—more than Sam Smith, Hozier and One Direction combined. Swift has already earned roughly $300 million during her career and plowed much of it into real estate, reportedly buying homes in Nashville, Beverly Hills, New York City

of emergency rooms and doctors' offices.

"She was the most sensitive child," remembers her mother, Cathy Alba, who wasn't referring to her daughter's emotional well-being. Raised on Air Force bases in such places as Biloxi, Miss. and Del Rio, Tex., Jessica's bad allergies and chronic asthma made her predisposed to pneumonia, which she contracted about twice a year, often leading to two-week hospital stints.

Now covered in hives again—and wary of having her baby relive her own experience—Alba spent late nights on Google and Wikipedia researching the contents not just of the offending detergent but also of everything in her bathroom cabinet and under her kitchen sink. "I was like, 'How can this be safe for babies if I'm having this type of reaction?' " she says. What she found terrified her: petrochemicals, formaldehydes and flame retardants in everyday household products from floor cleaners to mattresses. Some were listed on the ingredients label plain as day, with others disguised under the catchall of "fragrance," which is entirely legal.

Armed with Internet printouts and fear for the health of her unborn child, Alba first tried to shop around the problem but grew irritated trying to find natural and eco-friendly products that weren't either extortionate or seemingly designed for yurt-dwelling vegan yogis. Or both. "I felt like my needs weren't being met as a modern person," she says. "I want beautiful design like everybody else. But it shouldn't be premium-priced, and it should, of course, be safe."

She tried making her own cleaning products out of baking soda, vinegar and essential oils but wound up with something closer to salad dressing. So when she came across Christopher Gavigan, who for seven years led a nonprofit called Healthy Child Healthy World, she, like most new mothers, asked him what to buy.

"They don't want to be that investigatory weekend toxicologist," says Gavigan. "They just want someone to hold their hand." He explained that several companies with "green" credentials like Vermont-based Seventh Generation were doing good work across some product categories, but there was no one um-

MONROE

FALZONE

JURICH

SWIFT

MASSENET

AHRENDTS

and Watch Hill, R.I. She and her family own a large piece of Big Machine Records, home to Swift and a host of other artists, including Rascal Flatts and Tim McGraw. The company is said to be on the block for up to $350 million.

Natalie Massenet

$170 MILLION
AGE: **50.** RESIDENCE: **LONDON**

The former fashion journalist launched online luxury retailer Net-a-Porter in 2000. She sold a majority stake to Swiss firm Richemont in 2010 but stayed on as executive chairman. Now the $835 million (sales) company plans to merge with Italian firm Yoox in September in a deal that values the combined entity at $2.5 billion.

Lynn Jurich

$130 MILLION
AGE: **35.** RESIDENCE: **SAN FRANCISCO**

Cofounder and CEO of Sunrun, which provides affordable solar energy service to 60,000 homeowners in 12 states. The company has reportedly raised $295 million at a valuation of $1.3 billion. After a stint in private equity, Jurich started the firm in 2007 at age 28 with Stanford business school classmate Ed Fenster.

Lisa Falzone

$100 MILLION
AGE: **30.** RESIDENCE: **MENLO PARK, CALIF.**

Three years after graduating from Stanford, Falzone launched point-of-sale software firm Revel Systems with partner Chris Ciabarra in 2010. The firm's iPad-based software is used in retail and restaurant chains such as Dairy Queen and Popeye's Louisiana Kitchen. Falzone is CEO of Revel, which is based in New York and now valued at more than $400 million.

Angela Ahrendts

$75 MILLION
AGE: **55.** RESIDENCE: **CUPERTINO, CALIF.**

The former Burberry CEO hopped across the pond in May 2014, joining Apple as the senior vice president of retail and online stores and the first woman on CEO Tim Cook's executive team. One of the highest-paid female executives on both sides of the Atlantic, Ahrendts was credited with tripling revenues during her 8-year tenure at the fashion label. Earlier, the Indiana native had gigs with Liz Claiborne and Donna Karan.

SANDRA BULLOCK: MICHAEL TRAN / GETTY IMAGES; NATALIE MASSENET: MIKE MARSLAND / GETTY IMAGES; TAYLOR SWIFT: KARWAI TANG / GETTY IMAGES; ANGELA AHRENDTS: SIMON DAWSON / BLOOMBERG

Women and Finances

The Power of Empowerment

Forbes Insights and Northwestern Mutual asked women about what they want to achieve, how confident they are in attaining those goals and what makes them feel empowered. Here's what they said:

Women Are *Challenged* by Financial Goals

Women are confident they can attain their life goals, such as having close, fulfilling relationships and maintaining balance in their lives, but financial goals feel more out of reach.

ATTAINABLE GOALS

Percentage of respondents who say they are very likely to achieve these goals

Most Attainable

Having close, fulfilling relationships
75%

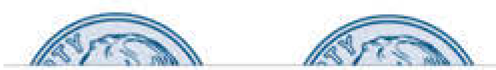
Raising happy children
71%

Pursuing social values
71%

Least Attainable

Achieving money/wealth
27%

Being able to leave wealth for future generations
26%



Changing Priorities

"Finances are important, but it's easy to shove them to the back burner. I don't save a ton of money, but I'm saving more than in the past now that I'm older and the clock is ticking."

Tonia Jenny
Book Editor

Reaching Financial Goals:

46% of women who are highly disciplined financial planners say they are confident they will achieve wealth vs. **15%** of women who are informal planners or have not established financial goals.

Source: Based on a Forbes Insights and Northwestern Mutual survey of 807 women in the United States. Forbes Insights conducts primary research designed to support both strategic and tactical decisions for business executives.

ILLUSTRATIONS BY ANTHONY MUCIA

Taking Action Produces Financial Confidence

“We see our clients become more confident when they identify their goals and put a plan into action to achieve them.”

Beth Rodenhuis
SVP, Northwestern Mutual

Women Are *Confident* When They Have Financial Knowledge

Learning more about finances and working with a financial advisor increases women’s confidence in achieving their financial goals.

WHO IS CONFIDENT ABOUT HAVING WEALTH?

Percentage of respondents who say they are confident

Level of Knowledge	
Novice	12%
Intermediate	24%
Advanced/ Expert	45%

Working with a Financial Advisor:

60% of women who work with a financial advisor say they’re confident about reaching retirement goals vs. **34%** of women who don’t have a financial advisor.

Financial Knowledge Empowers Women: **53%** of financially savvy women feel empowered by participating in family finances vs. **31%** of financial novices.

Women Are *Empowered* by Financial Stability

60% of women surveyed by Forbes Insights and Northwestern Mutual say they feel empowered when they are comfortable with their financial situation.

I FEEL EMPOWERED WHEN:

63% — I make personal choices to live my life the way I want

60% — I am comfortable about my financial situation

42% — I participate in my family’s financial decision-making

36% — I influence others

35% — I advance in my career

Financial Freedom Enhances Security

“I see a correlation between having financial freedom and a greater sense of security in general. It allows me to live my life the way I want to and to pursue the opportunities I want.”

Kelly Hirbour
Compensation Officer

brella brand positioning itself as the go-to for all things eco-friendly, safe and nontoxic.

A lightbulb went off for both of them. Pretty soon Alba and Gavigan were polishing off wine on nights and weekends, cooking up a business plan and buying up Web domain names with the word "honest" in them. Through her husband, she met Web entrepreneur Brian Lee, a trained attorney who had hit it big with LegalZoom.com, an online legal-documentation service he cofounded with Robert Shapiro of O.J. Simpson infamy.

"I made some introductions for her and said good luck," says Lee, who looked at Alba's 50-page PowerPoint in 2009 but didn't bite. He says now he was simply tied up launching subscription shoe site ShoeDazzle.com with then partner Kim Kardashian.

Meanwhile, Alba was busy with her Hollywood career, starring in the likes of *Valentine's Day*, *Little Fockers* and *Machete*, all of which premiered in 2010.

Alba kept Gavigan on her payroll as a consultant. By 2011 she had turned herself into an expert on consumer products and traveled to Washington, D.C. to lobby for updated legislation. She was—and is—particularly focused on reforming the 1976 Toxic Substances Control Act, which has allowed more than 80,000 chemicals to remain in household products untested. Only 5 are regulated by the Environmental Protection Agency; only 11 are banned from consumer goods. (In Europe that figure is more than 1,300.) "Enough people have to get sick or die from a certain ingredient or chemical before it's pulled from the marketplace," says Alba.

For Alba's husband, Cash Warren, it was a lesson in climbing a steep learning curve. "I didn't know much about all the chemicals that were in our consumer products, so she educated me on this epidemic," he says. "It felt massive, so I was a little reserved at first. She jumped into it headfirst."

She went back to Brian Lee in 2011 armed with data on the rise of childhood diseases and a much more concise ten-page pitch deck. Lee's mind had changed—not coincidentally, he had recently become horrified when his young son was banned from bringing that classic, all-American lunch the PB&J sandwich to nursery school. Too many kids had severe nut allergies. "Autism, Tourette's, chronic allergies and asthmas and celiac disease—all of this stuff is on the rise," Lee says. "I almost had this moment of awakening. Why aren't we doing something about this?"

Movie Star Turns Mogul

THE HONEST COMPANY'S **$1 BILLION** VALUATION BEATS OUT THE LIFETIME DOMESTIC BOX OFFICE OF ALL HER MOVIES, COMBINED.

CAMP NOWHERE – 1994
$10 mil

NEVER BEEN KISSED – 1999
$55 mil

IDLE HANDS – 1999
$4 mil

HONEY – 2003
$30 mil

SIN CITY – 2005
$74 mil

FANTASTIC FOUR – 2005
$155 mil

INTO THE BLUE – 2005
$19 mil

FANTASTIC FOUR: RISE OF THE SILVER SURFER – 2007
$132 mil

GOOD LUCK CHUCK – 2007
$35 mil

AWAKE – 2007
$14 mil

THE EYE – 2008
$31 mil

THE LOVE GURU – 2008
$32 mil

LITTLE FOCKERS – 2010
$148 mil

VALENTINE'S DAY – 2010
$110 mil

MACHETE – 2010
$27 mil

SPY KIDS: ALL THE TIME IN THE WORLD 4D – 2011
$39 mil

ESCAPE FROM PLANET EARTH – 2013
$57 mil

MACHETE KILLS – 2013
$8 mil

SIN CITY: A DAME TO KILL FOR – 2014
$14 mil

TOTAL:
$993 mil

SOURCE: BOX OFFICE MOJO.

Lee got on board with Alba and Gavigan that year, bringing with him a fourth cofounder in Sean Kane, who'd spent a decade selling discount products at Pricegrabber.com. Lee and Alba seeded their new startup to the tune of about $6 million, with another investor, according to a source close to the deal. (The company would not comment on initial investments or its founders' current personal stakes.) The group called their new firm The Honest Company, as a nod to its values and transparent ingredients.

ONE WALL OF THE HONEST Company's L.A. office showroom best represents its roots. On it you'll find rows and rows of diapers, mounted, matted and framed. Each has a whimsical design on the butt. There's one with a purple-and-green leopard print; there are juicy pink strawberries and a stars-and-stripes print perfect for baby's first Fourth of July.

These are the diapers that gave The Honest Company its start and indeed still account for a large proportion of sales: About 75% of revenues still comes from online commerce, and the majority of that is from the company's $79.95 monthly bundles of diapers and wipes.

During Alba's days scouring supermarkets for safe baby detergent, she often wondered why no one in the retail or fashion world had yet come up with seasonal designs for diapers. "I

kind of want them to be cute," she says. "And the natural diapers: Why do they have to look like your baby's wearing a brown bag?"

After having her first daughter, Honor, in the summer of 2008 (in 2012 she had another daughter, Haven), Alba also found herself routinely running out of diapers in the middle of the night. She was toying with the idea of a subscription service for nontoxic household essentials—cleaning products, maybe diapers, too. But this was long before monthly cosmetics-sampling startup Birchbox launched, and that business model didn't really exist.

Creating safe, chemical-free, nontoxic consumer goods from scratch without the infrastructure of, say, a Procter & Gamble or a Kimberly-Clark was a prospect that would cost way more than even the $6 million seed fund. So they went looking to get venture capital into the diaper business. "That's the only thing we pitched," says Lee. "It was very strategic as we knew that was the way into your home."

Lee was a known quantity among the venture capital firms of Palo Alto. Even so, The Honest Company took a gamble approaching backers without having made even a dollar of revenue. "They hadn't shipped yet when we invested, so it was a leap of faith we don't normally take in e-commerce businesses," says Neil Sequeira, a managing director at General Catalyst Partners.

He was a big believer in online-only models, having backed pioneering eyeglasses e-tailer Warby Parker. He also liked the subscription aspect of the business: It took much of the pain—and expense—out of acquiring new customers. "Assuming they like it, the big Super Bowl ads and stuff become less important," he says. Early on Honest relied on Facebook for efficient advertising instead of traditional campaigns. General Catalyst joined Lightspeed Venture Partners and Institutional Venture Partners in a 2012 Series A that raised $27 million.

That turned out to be just the start. As the diaper business proved its efficacy, Alba and her team—Lee serves as the CEO—reverted to the original concept: a single brand that carried its credibility across all products in the nontoxic universe. Raising a total of $127 million through August 2014, The Honest Company has been able to create more products in different categories—dish soap, kitchen cleaner, detergent, nipple balm, multivitamins and even nursery furniture.

LEE, ALBA AND THEIR TEAM intended for The Honest Company to remain online, where its revenues grew steadily thanks in part to the actress "trying to yell from the rooftops," as she describes her marketing efforts. (She has over 5 million Instagram followers on her own account.)

> **"Enough people have to get sick or die from a certain ingredient or chemical before it's pulled from the marketplace."**

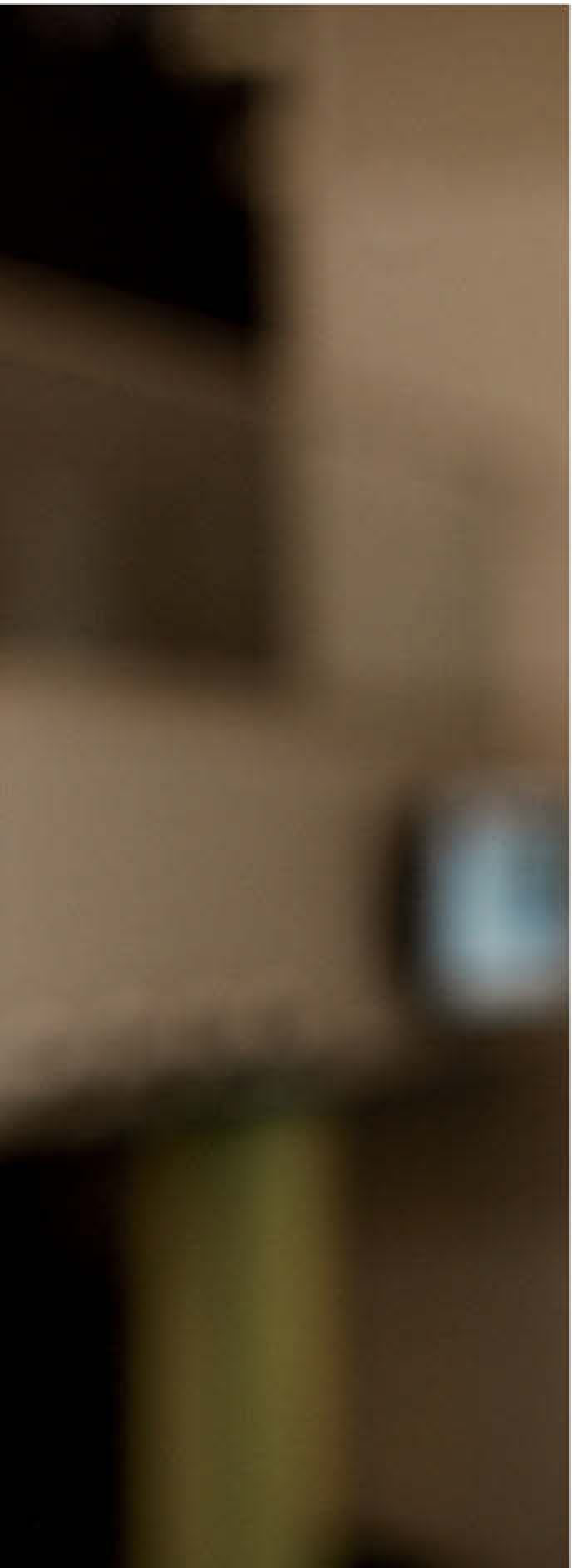
But almost as soon as they launched, high-end mommy-and-baby boutiques with cutesy names (The Pump Station in west L.A. and The Upper Breast Side in Manhattan) cottoned on to The Honest Company, asking whether Lee and Alba had considered selling the brand in brick-and-mortar stores. Stock in these mom-and-pop shops sold out so quickly that when Costco came calling in 2013 wanting to sell baby shampoo in family-size packs, the Honest team relented. Since then Whole Foods, Nordstrom, Buy Buy Baby, Destination Maternity and even discount behemoth Target have started selling The Honest Company's wares.

Two things stand out on their short-term agenda. First, international expansion. Honest products will debut in South Korea later this year and in China possibly in 2016. And then, most likely next year, a public offering, according to people familiar with the company. Such a move provides a war chest, though that doesn't seem to be an issue at present. "The company's outperforming," says General Catalyst's Neil Sequeira. "They have pretty much unlimited access to capital and a very strong balance sheet." Liquidity, then, would seem to be the key driver.

With a big payday in the offing, Alba remains an active presence, much to the delight of her venture capital backers, who had built-in celebrity endorsement from a cofounder. "I think they realized they got a lot of bang for their buck," Lee says. Alba still makes the occasional film, but she makes quick work of it. She shot her scenes for the upcoming movie adaptation of hit series *Entourage* in three hours. In 2016 she'll appear in a sequel to crime-caper mainstay Jason Statham's *The Mechanic*. "It took ten days in November and ten days in January, and I got to be in a fun action movie," she smiles.

Such efficiency is important when you have 130 customer service representatives to train in all things Honest. All told, there are now 350 employees at two offices.

While Alba doesn't have the time to travel the country educating retailers, she now has the next best person on her staff: her mother. A year ago Cathy Alba came on board at The Honest Company, spending two weeks a month telling store managers at Whole Foods and Buy Buy Baby outposts across the country about her daughter's struggles with childhood illnesses. Cathy came out of retirement to take the gig. "I'm very much like Jessica," she says. "All or nothing." F



JONATHAN KOZOWYK FOR FORBES

The Modest Tycoon

SHI International is the largest woman-owned business in America, and it's made Thai Lee a billionaire. She'd rather you not call her that.

BY DAVID M. EWALT

Thai Lee drives herself to work and parks in the middle of the lot, even when there are spaces open up front. Her small office sits right off a cubicle farm filled with junior employees. There's no executive assistant at the door keeping interruptions away; she doesn't have one. Lee keeps her own calendar, books her own travel and does her own filing.

In fact, there's nothing in trappings or manner to reveal what, until now, has been kept under wraps. Thai Lee owns the largest female-owned business in America, and apparently one of the top three minority-owned

ones. And it's made her a billionaire.

You probably haven't heard of her or her company, but under Lee's management SHI International has grown from a failing software reseller with five employees and about as many customers into one of the biggest and best-regarded IT providers in the world, with $6 billion in sales and 3,000 employees worldwide. Selling everything from third-party hardware and software to custom applications and consulting services, SHI has amassed 17,500 customers, including the likes of Boeing, Johnson & Johnson and AT&T. It has posted positive sales growth every year of its existence and exceeded 15% growth in 2014. While the private company won't reveal profits, Lee, who is CEO, suggests its net margins are approximately 3%.

FORBES' most conservative estimates place the value of SHI just above $1.8 billion, and that makes 56-year-old Lee—who owns 60% of the company—one of just 18 self-made female billionaires in the U.S. Not that she'd ever brag. On the contrary, when FORBES first contacted her about appearing on our list of wealthiest self-made women, she told her communications team to do whatever it could to get her name removed. When she found out FORBES would proceed without her blessing, she grudgingly agreed to this interview. Later Lee argued unconvincingly that our estimate was too high. And then she deflected any praise.

"A dollar amount could never accurately convey the respect and admiration I have for the employees of SHI," she says.

Very hokey but also very central to how Lee has built her fortune. She works in an industry where customers frequently dump vendors as soon as someone else offers a lower price. Coddling her employees, who in turn cater to customers, is the key to her success.

When I visited Lee's office in Somerset, N.J. on a recent Friday, she handed me a printout of her 19 direct reports. On it she had jotted down each person's start date and written "18 yrs avg tenure" at the bottom. Company marketing materials like to boast about SHI's sky-high 99% customer retention rate. Because SHI is private, it's impossible to verify, but the point is clear: Lee is obsessed with keeping her customers and employees happy.

"It's culture at this point," she says. "We have no executive parking. ... We don't have a special executive compensation plan. We try to make sure that everybody feels valued." In this social compact they, in turn, create value.

THAI LEE'S FIRST FAMILY—the one she was born into, that is—moved around a lot when she was little. She was born in Bangkok, Thailand. Her father, a prominent Korean economist, traveled the world promoting his country's postwar development plan. Lee, the second of three daughters and one son, spent most of her childhood in Korea. From an early age she developed a reputation as thoughtful, studious and prepared for any eventuality.

"I allotted myself some time: My entire 20s, I was going to learn all about business."

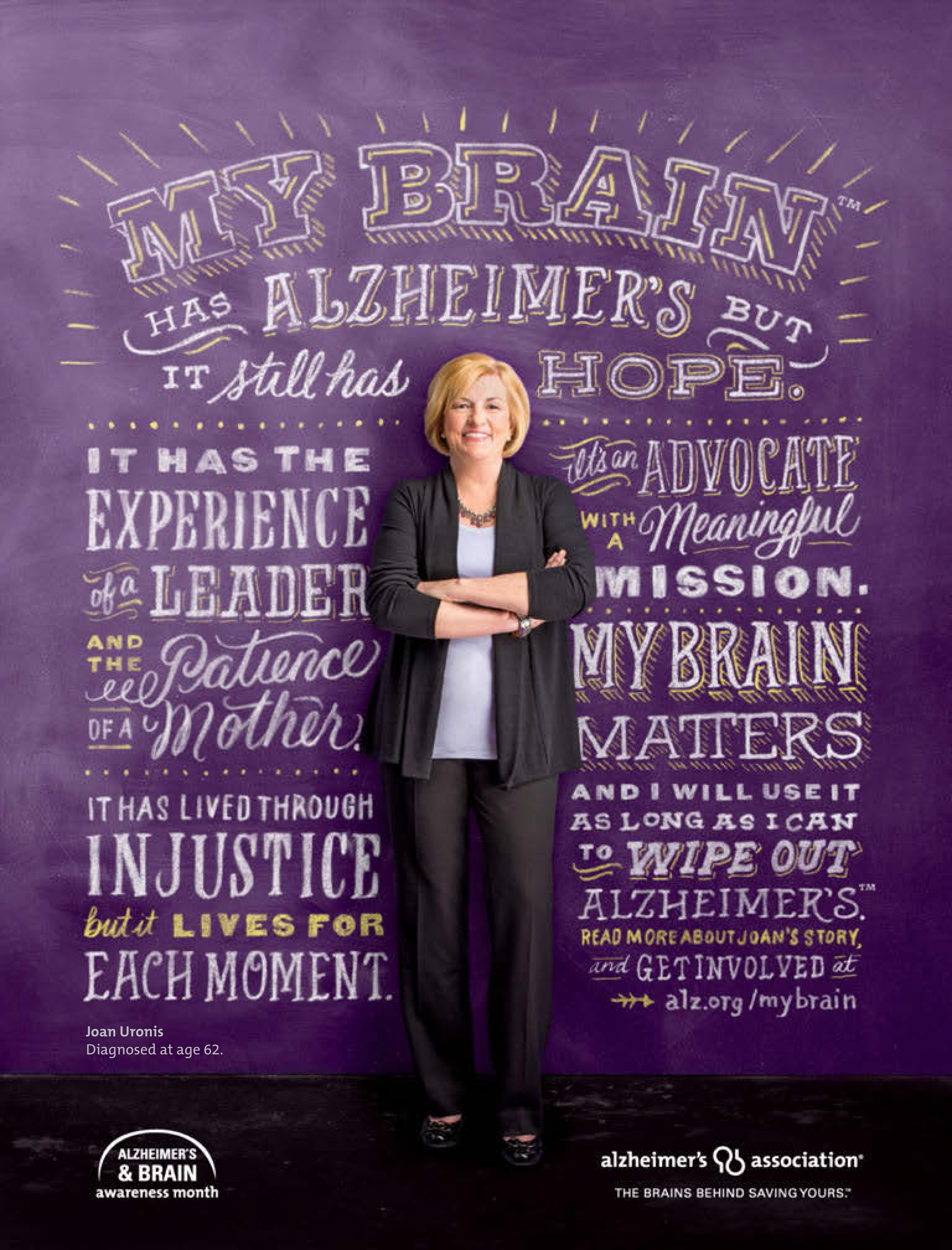
"If you're in Korea, you have to think about what would happen if North Korea invades," says Celeste Lee, her younger sister, who works at SHI, "and whenever we played together, she was always planning our survival. She's the most focused person I've ever met."

In her teens Thai and her older sister, Margaret, moved to America, where they lived with a family friend, attended high school in Amherst, Mass. and then enrolled at Amherst College. Lee eventually earned a double major B.A. in biology and economics—subjects she chose, in part, because of her accent and less-than-perfect fluency in English. "I was determined to avoid any and all courses that required writing and speaking in class," she laughs, "because I was determined to get the best grade possible. I knew then that the best chance of success for me was to start my own business, because after I x-ed out all the professions I could not be successful in, that's what I was left with."

Lee chased her American dream with serious intent. After college she returned to Korea and worked at auto parts maker Daesung Industrial Co. in Seoul in order to raise enough money to get an M.B.A. A few years later she was back in Massachusetts and in 1985 graduated from Harvard Business School.

Afterward she chose jobs to help prepare her for inevitable entrepreneurship: two years at Procter & Gamble working on such brands as Always and Crest, then two years at American Express. "I knew that I wanted to prepare myself, so I allotted myself some time: My entire 20s, I was going to learn all about business," Lee says. By age 30, the long-term plan went, she'd be running her own company. By 40 she'd have a husband and kids.

As it happened, the husband came first. In 1989 Lee married Leo Koguan, a Columbia-educated lawyer who shared her dream of entrepreneurship—and later that year spotted an opportunity to make it come true. Lautek, a struggling software company in New Jersey, had a tiny division called Software House that sold business licenses to run programs like Lotus 1-2-3. It was down to only a few customers, but some of them were big (like AT&T), and the couple perceived lots of potential value


MY BRAIN™
HAS ALZHEIMER'S BUT
IT still has HOPE.
IT HAS THE EXPERIENCE of a LEADER
AND THE Patience OF A Mother.
IT HAS LIVED THROUGH INJUSTICE
but it LIVES FOR EACH MOMENT.
It's an ADVOCATE WITH A Meaningful MISSION.
MY BRAIN MATTERS
AND I WILL USE IT AS LONG AS I CAN TO WIPE OUT ALZHEIMER'S.™
READ MORE ABOUT JOAN'S STORY, and GET INVOLVED at
alz.org /mybrain
Joan Uronis
Diagnosed at age 62.
ALZHEIMER'S & BRAIN awareness month
alzheimer's association®
THE BRAINS BEHIND SAVING YOURS.™

in its relationships with vendors (like IBM). Koguan and Lee paid less than $1 million for that business, funding the purchase with savings and a few small loans. Soon after, they rechristened the company with a name that reflected Lee's global ambitions: Software House International.

The marriage didn't survive, but the partnership still exists. The couple, who have two teenage children, divorced in 2002, but Koguan remains nonexecutive chairman and owns the remaining 40% stake in SHI. (FORBES requested to speak to Koguan, but SHI declined. Other attempts to reach him were unsuccessful.)

LEE NEVER HAD A specific interest in technology. When she was in college and deciding to start a business, she "wasn't thinking of technology at all." At that time personal computers weren't common, so her exposure to them was limited. She's never been the early-adopter type.

"Actually, I probably would be the last person," she says. "Gadgets have to provide real utility. I have to extract more out of it than I would put into learning about it." It might be, she says, that she approaches technology in a way that's more common among women—she's practical and wants to see the technology prove its utility before she buys in. (It's one of only a few times in our conversations that she acknowledges her gender might distinguish her from other CEOs.)

It's a mind-set that has worked in her company's favor, especially in the early days, when SHI's biggest differentiator wasn't cutting-edge technology but over-the-top customer service.

"We had no inventory, very little money, no market presence, no marketing, no promotion," says Melissa Graham, SHI's vice president of new business development, a former Lautek staffer who became SHI's first hire. "What we did have was someone who wanted to make this thing work. Thai always had her eye on what would make SHI relevant."

From the start Lee told her staff they could make their own decisions about how to manage their customers. "She took aside the outside sales force, the ones going out and winning new business, and told them, 'You are the president of your company,' " says Graham. "If you are responsible for a customer, you own that. Being empowered that way, it's very important."

Treating customers like partners—instead of just consumers of computer stuff in a box—won their loyalty and their money. "Tech vendors and resellers have a propensity for being flipped quite frequently," says Anthony Andreou, a leader at Dun & Bradstreet, which has been an SHI customer for over 15 years. "But when you have a good vendor that provides great service, there's stability and less of a reason to switch."

Andreou credits Lee's management as a key reason that Dun & Bradstreet stays with SHI. "Thai is a remarkable leader," he says. "She is very smart, very focused and humble. She really empowers her employees and allows them the scope and the breadth to serve their customers well."

Even in the early days of the company, Lee knew that customers would notice if SHI went out of its way to solve their problems—and that's how the company would expand.

Graham remembers a Friday afternoon when one of SHI's largest software customers called and said it was spending millions a year buying computer hardware from someone else—but the company liked SHI better, so it wanted to switch vendors and buy computers from SHI, too. Starting Monday.

"I don't know that we'd ever sold a computer before, but they had a very good relationship with us," says Graham. "So some of us went to Thai and said, 'Here's our opportunity.' "

Lee told the team to go for it. "A bunch of people worked all weekend to figure out how we were going to do that," says Graham. Fifteen years later that company is now one of SHI's top three customers.

"Doing things we never did before, that was exciting," she says. "We were

Foreign Born

NEARLY A THIRD OF AMERICA'S 50 RICHEST SELF-MADE WOMEN WERE BORN ABROAD. LIKE THAI LEE, THESE EXECUTIVES AND ENTREPRENEURS BUILT THEIR FORTUNES AFTER MOVING TO THE U.S.

NAME	NET WORTH	PLACE OF BIRTH
Jin Sook Chang	$3.05 BIL	SOUTH KOREA
Peggy Cherng	$1.5 BIL	BURMA
Neerja Sethi	$1.1 BIL	INDIA
Thai Lee	$1.1 BIL	THAILAND
Eren Ozmen	$900 MIL	TURKEY
Christel DeHaan	$900 MIL	GERMANY
Weili Dai	$720 MIL	CHINA
Safra Catz	$525 MIL	ISRAEL
Jane Hsiao	$510 MIL	TAIWAN
Jayshree Ullal	$470 MIL	U.K.
Diane von Fürstenberg	$450 MIL	BELGIUM
Sonia Gardner	$380 MIL	MOROCCO
Kit Crawford	$360 MIL	CANADA
Sachiko Kuno	$330 MIL	JAPAN
Adi Tatarko	$300 MIL	ISRAEL

fearless builders. And then we would replicate, go to other customers and say, 'Now we can do this.' "

The ideas came from all over. Hal Jagger, an acquaintance who was then an executive at enterprise software firm Business Objects, came to Lee with the idea of creating a new division aimed at serving small and midsize businesses. The fact that it was during the economic recession of 2008 didn't faze her.

"The total available market was $150 billion to $200 billion," says Jagger. "Even if that number declined by 3% or 4%, there was still a huge market out there for companies like SHI to attack."

Lee hired Jagger as SHI's VP of corporate sales, and over the next two years they constructed the new business unit from scratch. Lee paid for the expansion—the biggest in SHI's history, according to the company, though it won't disclose a dollar amount—without incurring any debt and by using only cash on hand.

It was a gamble, but it paid off. Seven years later Jagger's division has revenues of more than $1.6 billion. And the expansion didn't come at the expense of the rest of the organization: Over the same seven-year period revenue from SHI's other business groups—enterprise, public sector and international—collectively doubled in size.

"Doing things we never did before, that was exciting. We were fearless builders."

THE BEST THING ABOUT hitting $6 billion in revenue, according to Thai Lee, is that there is still plenty of room to grow. The potential market for SHI—and competing IT providers, like CDW and Insight—is huge. Technology research firm IDC predicts that global spending on IT products and services will reach $2.16 trillion in 2015, up 3.4% year-over-year. But it's clear that SHI will need to keep developing new lines of business, because the way that money is being spent is getting turned on its head.

In the past large IT departments depended on companies like SHI to handle functions like acquiring new software because the process was complicated—it required the acquisition of physical product like floppy disks or CDs, negotiation of licensing agreements and lots of bureaucracy to pay the bills. But now software vendors are making it easier for customers to get their product. Anyone can download a program from the Internet and pay for it with a credit card.

As a result, the software reselling business is changing fast, according to Darren Bibby, a vice president at tech research firm IDC. And cloud technologies are making the problem even more acute. "If all your customers have to do is go to Salesforce.com to be up and running, your value just went away," he says.

SHI is still moving lots of software—$3.5 billion in sales last year. But in anticipation of a shift, Lee has spent recent years building out SHI's service business, offering products like asset management, which tracks the moving parts of customers' IT infrastructure, like which employee has what laptop and who is allowed to run a particular program; data center management, where SHI oversees the operations of a company's back-end servers and storage; and network security checks, where SHI figures out if a company is vulnerable to hackers, viruses or other digital threats.

Of course, as SHI and its competitors start moving up the chain and offering more services, that rattles big consulting firms like Accenture, Capgemini and Deloitte. "If all of these resellers are deciding they're going to sell services, the service guys will start reselling," Bibby says. Lee is unfazed, having adapted her business many times over the years. She predicts SHI's sales will reach $10 billion by 2019. "We already went through a ten-year period where we doubled in size every year," she says. "This doesn't seem as challenging."

LEE'S ENTIRE LIFE FOR the past quarter-century has been wrapped up in her two families: her two kids at home and her 3,000 employees at the office. Lee, who has lived in the same house in Lebanon, N.J. for 20 years, often works seven days a week. Outside of that, she donates time and money to favorite causes—she's interested in educational charities and is a supporter of cancer research societies (her older sister Margaret is a pancreatic cancer survivor).

Still she's already accomplished most of what she set out to do. "I've checked off all the things that I needed to achieve," she laughs. "Start a business, get married, have children." Now her primary goal is to make sure SHI can outlast her—not that she's leaving anytime soon. There is always the chance of an IPO or acquisition.

"We've been approached many times," she says, "but it hasn't been attractive, because we're so well positioned. We don't really need a partner." An ownership change could be a good way to secure the company's post-Lee future, though. It would also give her a convenient exit.

"I certainly don't want to work for somebody else at this point," she says. "I haven't for twentysomething years.

"But I would like to unwind on weekends," she adds. "I need to find hobbies. That's one of my goals now. I have a really big pile of books that I want to read." F

America's Richest Self-Made Women

FORBES has compiled its first ever list of the nation's top 50 most successful women as measured by their net worths. The exclusive freshman class includes entrepreneurs, CEOs, entertainers, designers and even an author.

1. Elizabeth Holmes

$4.5 BILLION
AGE: **31.** RESIDENCE: **PALO ALTO, CALIF.**

Her uncle died from cancer because it wasn't caught early, driving Holmes to drop out of Stanford her sophomore year to launch blood testing firm Theranos in 2003. Faster, cheaper and less painful than other tests, it is now available in 41 Theranos labs at Walgreens. Theranos raised $400 million from venture investors. Company was valued at $9 billion last year, which made her the youngest self-made female billionaire in the world.

2. Diane Hendricks

$3.7 BILLION
AGE: **68.** RESIDENCE: **AFTON, WIS.**

Owner and chairman of $4.8 billion (sales) ABC Supply, a wholesale distributor of roofing, window and siding materials. She cofounded ABC with her husband, Kenneth (d. 2007).

3. Doris Fisher

$3.1 BILLION
AGE: **83.** RESIDENCE: **SAN FRANCISCO**

Cofounded the Gap with her husband, Donald (d. 2009), after they couldn't find jeans that fit him. Pair raised $63,000 and opened their first store in 1969. She was the retailer's merchandiser until 2003 and board member until 2009; she still has a big stake in the $16.4 billion (net sales) company.

4. Jin Sook Chang

$3.05 BILLION
AGE: **52.** RESIDENCE: **BEVERLY HILLS**

Chief merchandising officer of $4.4 billion (sales) Forever 21, fast fashion chain that she owns with her husband, Don. South Korean immigrants, they opened their first 900-square-foot shop in 1984. They now operate over 680.

5. Oprah Winfrey

$3 BILLION
AGE: **61.** RESIDENCE: **MONTECITO, CALIF.**

Reigning queen of daytime TV has disproved naysayers with success of her cable network, OWN, which has seen ratings soar, thanks in part to collaborations with director Tyler Perry. Her movie imprint, Harpo Films, coproduced MLK Jr. biopic *Selma*. Still makes money from spinoffs like *Dr. Oz*.

6. Judy Faulkner

$2.6 BILLION AGE: **71.** RESIDENCE: **MADISON, WIS.**

Computer programmer is founder and CEO of $1.8 billion (sales) Epic Systems, which sells software used to store medical information on more than half the U.S. population. Clients include Mayo Clinic and Johns Hopkins. Epic has partnership with Apple to help patients share with their doctors biometrics stored in health care apps.

To compile net worths, we valued individuals' assets, including the value of stakes in public companies, on May 15, when we locked in stock prices. We valued private companies by speaking with an array of outside experts and conservatively comparing them with public competitors. To be eligible for this list, women had to have substantially made their own fortunes and be U.S. citizens or permanent residents. In cases where they started businesses with, and still share with, their husbands, we've assigned them half of that combined wealth. We attempted to vet these numbers with all list entrants. Some cooperated; others didn't.

PORTRAITS, CLOCKWISE FROM TOP LEFT: MICHAEL CHO, ENRIQUE MOREIRO, KEVIN WHIPPLE, PATRICK WELSH

11. Lynda Resnick

$2 BILLION
AGE: **71.** RESIDENCE:
BEVERLY HILLS

Child actor dropped out of college at age 19 to start ad firm. Met husband Stewart when he came looking for help. They now run Roll Global, owner of Fiji Water, Teleflora, Halos mandarin oranges, POM Wonderful. As big producers of water-reliant almonds and pistachios, couple is under scrutiny due to California drought, which has caused state's governor to impose water-use restrictions. (One almond takes roughly a gallon of water to produce.) Company has invested more than $100 million in sustainability technologies to date.

ETHAN PINES FOR FORBES

TIMOTHY ARCHIBALD FOR FORBES

21. Weili Dai

$720 MILLION

AGE: **53.** RESIDENCE: **LOS ALTOS HILLS, CALIF.**

Computer science major who initially worked as a software developer, Dai is apparently the only woman to start an American semiconductor company. She cofounded Marvell Technology with husband Sehat Sutardja in 1995. It now has $3.7 billion in sales and ships more than a billion chips a year to customers like IBM and Microsoft, mostly in Asia. Dai played semiprofessional basketball in Shanghai before coming to the U.S. in 1979.

7. Johnelle Hunt

$2.4 BILLION
AGE: 83. RESIDENCE: FAYETTEVILLE, ARK.

With husband J.B. (d. 2006), got into trucking in 1961. She held various posts, from corporate secretary to credit manager. It eventually became $6.2 billion (sales) J.B. Hunt Transport Services, which employs about 14,000 drivers.

10. Meg Whitman

$2.1 BILLION
AGE: 58. RESIDENCE: ATHERTON, CALIF.

Hewlett-Packard CEO owes most of her fortune to decadelong stint as CEO of online auction house eBay, which she expanded from $5 million in sales to $8 billion. Alumna of Princeton, with Harvard M.B.A., did stints at Hasbro, Walt Disney and Bain & Co. Credits her mom, who became an airplane and truck mechanic during WWII, for her "bias for action."

14. Thai Lee

$1.1 BILLION
AGE: 56. RESIDENCE: LEBANON, N.J.

CEO and majority owner of $6 billion (sales) SHI International, provider of IT products and solutions. She and her ex-husband bought predecessor firm for less than $1 million in 1989. *(See story, p. 76.)*

7. Judy Love

$2.4 BILLION
AGE: 77. RESIDENCE: OKLAHOMA CITY, OKLA.

With $5,000, she and husband Tom opened an Oklahoma gas station in 1964. Today their family-owned Love's Travel Stops & Country Stores has more than 300 locations in 39 states.

13. Peggy Cherng

$1.5 BILLION
AGE: 67. RESIDENCE: LAS VEGAS

CEO of $2.2 billion (sales) Chinese restaurant chain Panda Express, which she cofounded with her husband, Andrew, in 1983. An immigrant from Burma, has a Ph.D. in electrical engineering. Previously worked at 3M and McDonnell Douglas, where she coded simulators for the U.S. Navy.

16. Sheryl Sandberg

$1.05 BILLION
AGE: 45. RESIDENCE: ATHERTON, CALIF.

Facebook COO and author of bestseller *Lean In* is now asking men and women to "Lean In Together" to further gender equality at home and work. Her LeanIn.org launched a public service campaign with the NBA and WNBA, promoting equality. Her husband, Dave Goldberg, SurveyMonkey's CEO, who long supported her fast-track career, died unexpectedly at age 47 in May.

9. Marian Ilitch

$2.2 BILLION
AGE: 82. RESIDENCE: BINGHAM FARMS, MICH.

Ilitch met husband Mike in 1954 on a blind date arranged by their parents. They opened their first Little Caesars pizza restaurant in 1959. He was the marketing guy; she had the financial sense, famously stopping him from giving away meals early on. It is now one of nation's largest pizza chains (estimated sales: $3.7 billion). Separately, she owns Detroit's MotorCity Casino.

14. Neerja Sethi

$1.1 BILLION
AGE: 60. RESIDENCE: FISHER ISLAND, FLA.

Cofounded IT consulting and outsourcing firm Syntel with husband Bharat Desai in 1980. Treasurer for the first 16 years, she is now vice president of corporate affairs. She has an undergrad degree in math, master's in computer science and M.B.A. in operations research.

12. Elaine Wynn

$1.7 BILLION
AGE: 73. RESIDENCE: LAS VEGAS

Dubbed "Queen of Las Vegas" for understated but hands-on role in cofounding Wynn Resorts with ex-husband Steve, she was removed from the board in April. At issue is her desire to sell part of her 9% stake in the company, but due to the divorce settlement she can't do so without her ex-husband's approval. She's taken him to court; the company says her interests don't align with the board's.

17. Sara Blakely

$1 BILLION
AGE: 44. RESIDENCE: ATLANTA

Fifteen years after cutting holes in stockings to create body-shaping Spanx, Blakely keeps tinkering with the way women look in clothes. In 2014 she introduced slimming denim. Meanwhile, her longtime CEO left, and an apparel exec from Nike took the spot.

17. Tory Burch

$1 BILLION
AGE: 48. RESIDENCE: NEW YORK CITY

Fashion designer keeps expanding her preppy-chic brand, recently adding watches, fragrances and cosmetics. Next up: workout wear to take advantage of the "athleisure" craze. Her foundation has a JV with Bank of America to help finance early-stage women entrepreneurs.

19. Christel DeHaan

$900 MILLION
AGE: 72. RESIDENCE: INDIANAPOLIS

German-born DeHaan, who worked as a nanny in the U.K. before coming to the U.S., cofounded time-share pioneer Resort Condominiums International with her husband, Jon, in 1974; she took over management 5 years later after he had a heart attack. When they divorced in 1987, she got half the business and later bought him out for $67.5 million. In 1996 she sold it for $825 million. She has since given $220 million to 2 charities she started to promote education and the arts.

America's Richest Self-Made Women

19. Eren Ozmen

$900 MILLION
AGE: 56. RESIDENCE: RENO, NEV.

Turkish-American owns aerospace company Sierra Nevada Corp. with husband Fatih; she is chairman and president, while he is CEO. The couple started out at SNC as employees but became owners when they bought it in 1994. Since then the number of employees has risen from 20 to 3,000 in 18 states and Europe. The biggest female-owned federal contractor in the U.S., with $1.5 billion in sales, it builds satellites and propulsion systems and is developing the Dream Chaser spacecraft, which can go into space but lands on commercial runways like an airplane. In February it acquired 328 Support Services, a civil aircraft company in Europe focused on commercial aircraft technologies.

23. Alice Schwartz

$630 MILLION
AGE: 88. RESIDENCE: EL CERRITO, CALIF.

Schwartz was studying biochemistry at UC Berkeley when she met her husband, David (d. 2012), a chemistry major. The couple used $720 of savings to launch biotech firm Bio-Rad Laboratories in 1952. Today the $2.1 billion (revenues) company sells 10,000 different life science research and clinical diagnostics products.

24. Janice Bryant Howroyd

$610 MILLION AGE: 62. RESIDENCE: LAS VEGAS

Founder, CEO of $941 million (net sales) Act-1, which provides temporary staffing, HR services and consulting to some 12,000 clients. She struck out on her own in 1978 with $1,500, including a $900 loan from her mother. She sits on 7 boards, such as the Women's Leadership Board at Harvard. Transferred part of company to her 2 kids but retains control.

24. Mary West

$610 MILLION
AGE: 69. RESIDENCE: SAN DIEGO

Founded WATS Telemarketing with husband Gary in 1978 after watching an uninspired commercial; sold it in 1980. Started West TeleServices in 1986 (Gary joined a year later); took it public in 1996. Sold majority stake a decade later for $1.4 billion in cash. West still owns 9% of West Corp., and set up nonprofits focused on lowering health care costs.

26. Lynn Tilton

$600 MILLION
AGE: 56. RESIDENCE: RUMSON, N.J.

Founder and CEO of private equity firm Patriarch Partners, which has raised more than $2.5 billion and invested in 240-plus companies. She's being charged with fraud by the SEC for concealing the poor performance of her funds while extracting rich fees. In May two investors also sued her for $44 million for defrauding them. Though she didn't respond to FORBES, she has denied the accusations. Tennis player at Yale, she once worked at Morgan Stanley and Goldman Sachs.

27. Safra Catz

$525 MILLION
AGE: 53. RESIDENCE: REDWOOD CITY, CALIF.

Israeli-born, Boston-bred Catz was tapped as co-CEO of software giant Oracle in September 2014. A 16-year vet of the company, she's been richly rewarded with stock options and is one of the world's highest-paid female executives, earning nearly $38 million in 2014.

28. Madonna

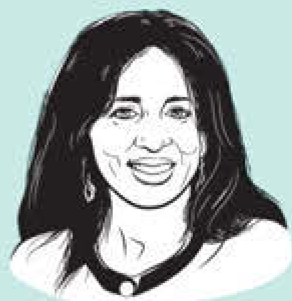
$520 MILLION AGE: 56. RESIDENCE: NEW YORK CITY

One of the top pop divas of all time. Her tours have grossed an estimated $1.2 billion over the years, including $305 million from her 2012 MDNA tour. That helped her earn an estimated $125 million in one 12-month period, more than any other musician. Look for another bump when she goes on the road with her latest album, *Rebel Heart,* in August.

29. Jane Hsiao

$510 MILLION
AGE: 68. RESIDENCE: DAVIE, FLA.

Cofounded pharmaceutical firm Opko with billionaire Phillip Frost in 2007. She is its vice chairman and chief technical officer. Frost's close confidante, she has been working with him for years at various pharma outfits like Ivax and Non-Invasive Monitoring Systems. Native of Taiwan. Educated there and also at the U. of Illinois; she has a Ph.D. and an M.B.A.



30. Jayshree Ullal

$470 MILLION
AGE: 54. RESIDENCE: SARATOGA, CALIF.

Became CEO of Arista Networks in 2008, when it had no revenues and fewer than 50 employees. "She took slightly more than an engineering team doing some good technology and turned it into the thriving network switch company it is today," says Arista cofounder David Cheriton. He and fellow cofounder Andreas von Bechtolsheim had previously worked with Ullal at Cisco, where she spent 15 years. Born in London, raised in New Delhi, she got an electrical engineering degree in the U.S.

22. Sheila Johnson

$700 MILLION

AGE: **66.** RESIDENCE: **THE PLAINS, VA.**

Cofounded TV network BET with her husband in 1979. Her private music-lessons business helped fund the company in the early years, and Johnson signed for the company's first loan. They sold to Viacom for roughly $3 billion in stock and debt in 2001 and divorced a year later. Disillusioned with BET, she dumped her Viacom shares and invested in resorts in Virginia and Florida and in 3 sports teams, including NBA's Wizards. She helped finance the 2013 movie *The Butler* and is working on a TV miniseries about Thurgood Marshall.

JONATHAN KOZOWYK FOR FORBES; MAKEUP BY CAROLA MYERS

31. Diane von Fürstenberg

$450 MILLION
AGE: 68. RESIDENCE:
NEW YORK CITY

Designer is best known for her body-hugging jersey wrap dress from the 1970s, so influential it was on view at the Metropolitan Museum's Costume Institute. She is now familiar to a new generation thanks to E! network reality show *House of DVF*, airing its second season this August. Husband is billionaire Barry Diller.

36. Sonia Gardner

$380 MILLION
AGE: 53. RESIDENCE:
NEW YORK CITY

Forget sibling rivalry. Gardner began working with brother Marc Lasry soon after law school in 1986 in the finance industry. In 1995 they cofounded Avenue Capital. He is CEO, she is president of the firm, which now has $13 billion in assets under management. Moroccan-born, she moved to the U.S. at age 4 and shared a bedroom with brother and sister for nearly 10 years.

39. Kathy Lehne

$340 MILLION
AGE: 53. RESIDENCE:
HOUSTON

Founded wholesale fuel marketer and distributor Sun Coast Resources at age 23. Thirty years later it is apparently the largest woman-owned business in Texas, with $1.8 billion in sales and a fleet of more than 500 trucks. Her husband, Kyle, a VP of sales who joined 11 years after its founding, is one of 1,800 employees. Lehne reportedly plays high-stakes poker in her free time.

31. Donna Karan

$450 MILLION
AGE: 67. RESIDENCE:
NEW YORK CITY

Widely credited with changing the way working women dress, DKNY founder made most of her fortune selling trademarks to LVMH in 2000; remains brand's chief designer. In 2015 she joined forces with Michael Bloomberg, creating a bracelet to benefit his "Everytown" campaign against gun violence. Daughter of a custom tailor and showroom model; got her start at Anne Klein.

33. Kathy Ireland

$420 MILLION
AGE: 52. RESIDENCE:
SANTA BARBARA, CALIF.

Supermodel who graced *Sports Illustrated*'s swimsuit issue for 13 years is now a licensing mogul who has lent her name to some 17,000 unglamorous products from socks to ceiling fans to cellphone accessories; estimated revenues top $2.5 billion at retail. Also has licensing deals with resorts in Greece, Hawaii and Fiji. Inherited Elizabeth Taylor's dogs.

35. Martine Rothblatt

$390 MILLION
AGE: 60. RESIDENCE:
SATELLITE BEACH, FLA.

Founder of Sirius Satellite Radio started a biotech firm after daughter developed a rare disease, pulmonary arterial hypertension. That firm, United Therapeutics, now sells 4 drugs and boasts $1.3 billion in sales. A transgender woman who has been married to her wife, Bina, for more than 3 decades, also had a robot created in Bina's image.

36. Marissa Mayer

$380 MILLION
AGE: 40. RESIDENCE:
PALO ALTO, CALIF.

Yahoo CEO's pay package jumped 69% in 2014 to $42 million, making her one of the country's highest-paid CEOs despite pressure from activist investors to improve financial performance. Much of her personal fortune, though, comes from what she accumulated during her 13 years at Google, where she was among its earliest employees.

34. Vera Wang

$400 MILLION
AGE: 65.
RESIDENCE:
NEW YORK CITY

Designer opened her flagship bridal boutique in the Carlyle Hotel in 1990 and has since dressed some of the world's most famous brides, including Victoria Beckham, Ivanka Trump and Chelsea Clinton. Wang sells her fashions in 21 flagship stores across the globe. She also gets revenues from licensing deals with David's Bridal, Kohl's and Zales. New York City native bought her late father's apartment on Upper East Side for $23 million in 2007.

38. Kit Crawford

$360 MILLION
AGE: 56. RESIDENCE: ST. HELENA, CALIF.

Co-owner of Clif Bar, maker of organic nutritional bars and drinks now sold in 14 countries. Co-CEO from 2007 to 2013 with husband Gary Erickson; they are now "co-chief visionary officers." Pair also has White Road Investments, venture firm that backs businesses that value sustainability and community involvement. Couple lives on a farm in Napa County. She spent 7 years as a dancer and choreographer, and worked in national parks for several summers.

39. Nora Roberts

$340 MILLION
AGE: 64. RESIDENCE:
BOONSBORO, MD.

America's most popular romance writer has penned an average of 6 books a year since 1981—214 books in all. She first appeared on the *New York Times* bestseller list in 1991, and since 1999 all of her titles have made the list. Nine books were turned into Lifetime movies.


MORE
women are running businesses, earning degrees, and controlling wealth than ever before.
Right now, women have the
POWER
to change the financial landscape, and it's time we worked together to make it happen. How can we do it? Education that empowers. Connections that inspire. Steps you can take right now
TO
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49. Judy Sheindlin

$250 MILLION
AGE: **72.** RESIDENCE: **NAPLES, FLA.**

Better known to fans as Judge Judy. Her eponymous show, on air for 19 seasons, is seen by 10 million viewers a day. Only woman in her first-year law school class of 126 in 1963, she became a family court judge in 1982. She retired as a supervising judge in 1996, when her show debuted. Makes an estimated $47 million a year and recently signed new 5-year deal with CBS.

JONATHAN KOZOWYK FOR FORBES

41. Sachiko Kuno

$330 MILLION AGE: **60.** RESIDENCE: **POTOMAC, MD.**

Japanese scientist with a Ph.D. in biochemical engineering, she and her research partner, now husband, Ryuji Ueno, made their fortune as cofounders and majority owners of 2 pharmaceutical firms, Sucampo Pharmaceuticals in Bethesda, Md. and R-Tech Ueno in Japan. The pair moved to the U.S. in 1999. Together they own 2 historic Georgetown mansions, Evermay and Halcyon House. She cofounded and is CEO of a nonprofit that supports talented individuals in the arts, sciences and social entrepreneurship.

42. Lynda Weinman

$320 MILLION
AGE: **60.** RESIDENCE: **SANTA BARBARA, CALIF.**

Sometimes called a "mother of the Internet," she sold her online learning platform, Lynda.com, to LinkedIn for $1.5 billion in May. A former Web design teacher, who published the textbook *Designing Web Graphics*, she and her husband bought the Lynda.com domain name in 1995 as a resource for her students. Today it offers more than 6,300 online courses and 267,000 video tutorials to individual, corporate, academic and government subscribers, including Google and Microsoft.

46. Adi Tatarko

$300 MILLION
AGE: **42.** RESIDENCE: **PALO ALTO, CALIF.**

Started home design site Houzz with her husband, Alon Cohen, when the couple had trouble finding ideas for remodeling their 4-bedroom house in Palo Alto. With Tatarko as CEO, the site has grown to attract more than 30 million monthly users and 700,000-plus home-remodeling and design professionals since launching in 2009. Born in Israel, she moved to the U.S. in late 1990s and is a permanent resident.

46. Susan Wojcicki

$300 MILLION
AGE: **46.** RESIDENCE: **LOS ALTOS, CALIF.**

Memes come and go, but Wojcicki's new job is to make sure YouTube profits from every one. Google employee No. 16—the company initially rented her Menlo Park garage as its headquarters—moved in 2014 from her post as consigliere for Google's ads and commerce to CEO of YouTube, the world's largest online video platform, 8 years after she encouraged her bosses to buy it.

42. Kathy Fields

$320 MILLION
AGE: **57.** RESIDENCE: **SAN FRANCISCO**

42. Katie Rodan

$320 MILLION
AGE: **59.** RESIDENCE: **SAN FRANCISCO**

Dermatologists, who first met as medical residents at Stanford, launched acne treatment Proactiv in 1995; they licensed it to Guthy-Renker. The doctors still get royalties, but the bulk of their fortune now comes from their skin-care company, Rodan + Fields. The pair bought it back from Estée Lauder in 2007, 4 years after selling it to the cosmetics powerhouse. They took the products out of stores and started selling directly to consumers. Revenues jumped 70% in 2014 to $330 million.

45. Liz Elting

$310 MILLION
AGE: **49.** RESIDENCE: **NEW YORK CITY**

Started TransPerfect in NYU dorm room in 1992 with fellow M.B.A. student Phil Shawe. It is now one of world's largest translation firms, with 4,000 employees and offices in 90 cities on 6 continents. Sales were up 17% last year to $470 million, despite the fact that Elting and Shawe, co-CEOs and co-owners, who were once briefly engaged, are going through a messy business divorce.

46. Pleasant Rowland

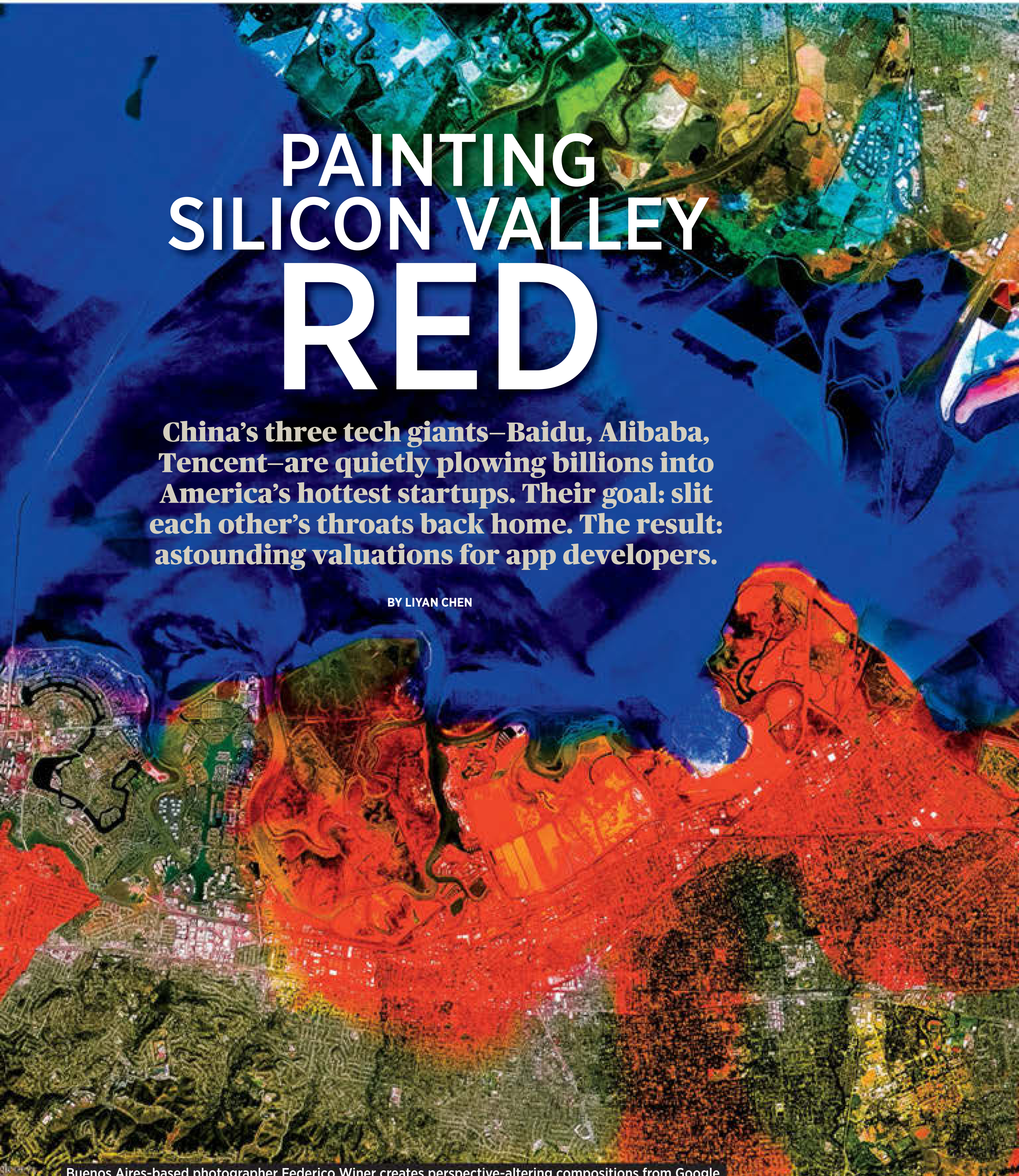
$300 MILLION
AGE: **74.** RESIDENCE: **MADISON, WIS.**

Former elementary school teacher and textbook author is creator of hugely popular American Girl dolls. Apparently inspired by a trip to Colonial Williamsburg and a futile search for dolls for her nieces, Rowland funded her idea with $1.2 million in savings from textbook royalties. She started selling in 1986. Revenues were $300 million when she sold to Mattel for $700 million in 1998. Now generous donor to her reading foundation.

49. Beyoncé Knowles

$250 MILLION
AGE: **33.** RESIDENCE: **NEW YORK CITY**

Fans are crazy in love with the pop star, who has pulled in more than $500 million in gross earnings as a solo artist. Last summer's On the Run tour with husband Jay Z—himself worth $550 million—brought in nearly $100 million from 19 North American shows, giving music's first couple a nightly average on par with the Rolling Stones. Next up may be a long-rumored dual album.



PAINTING SILICON VALLEY RED

China's three tech giants—Baidu, Alibaba, Tencent—are quietly plowing billions into America's hottest startups. Their goal: slit each other's throats back home. The result: astounding valuations for app developers.

BY LIYAN CHEN

Buenos Aires-based photographer Federico Winer creates perspective-altering compositions from Google Earth satellite images. This view of Silicon Valley indicates Zip code areas of Chinese investment in red.

Five days before closing a planned $12 million funding round in June 2013, Thiru Arunachalam and Bala Krishnan, founders of remote control app maker Peel, received an unexpected phone call. TransLink Capital, one of Peel's soon-to-be investors, asked them to consider taking an additional $1 million from a Chinese company called Alibaba, a name they barely knew.

"Listen, this is too late in the game," Arunachalam recalls saying, given that it was a Monday and he anxiously wanted to close the deal by Friday. "Let's just leave them alone and move on."

But their suitor would not be turned away. Within 48 hours Alibaba offered to put in $5 million—helping to pump the funding round up to $18.9 million—and sent over a two-page memo explaining its e-commerce business and ambitions in entertainment. By Thursday morning Hongping Zhang, managing director of Alibaba Capital Partners, showed up at Peel's door in Mountain View, Calif. and wooed the two cofounders over a long lunch. That night, already Friday Beijing time, Alibaba shot over the cash.

"They were the last people to talk to us but ended up being the first to wire the money," Arunachalam says. "They

Bala Krishnan (left) and Thiru Arunachalam, cofounders of app maker Peel, barely knew Alibaba when the Chinese e-commerce giant offered to invest.

moved like a big startup." Less than a year later Alibaba dropped another $50 million into Peel during its Series D round, helping to fund the company as its app grew to more than 100 million users.

This investment proved an early and tiny piece of the e-commerce giant's recent spending spree on American startups, one that speaks volumes about a trend quietly reshaping the venture capital ecosystem. Alibaba and its two giant Chinese Internet rivals—search engine Baidu and gaming/messaging firm Tencent—a trio known as BAT, are pouring money into all manner of firms at every stage from seed to late rounds. Since 2012 we count more than 50 investments totaling $2.3 billion. In the past 18 months alone Alibaba has plowed more than $1 billion into just ten U.S. firms.

Many of the investments are bizarre on the surface, smacking of dumb money rushing in late in the cycle and driving up valuations for everyone. Why would an e-commerce giant spend tens of millions of dollars on a startup like Peel that's outside of its core business, not to mention its core country?

In a word: smartphones. The three BAT companies each monopolize a sphere of China's desktop-style online behavior, but they risk falling behind in mobile. This is a problem in a country where tens of millions of people skip PCs entirely. Hence the land-grab—the Big Three don't much care where the innovations on this new intertwined platform come from or, it seems, how much they have to shell out to secure them.

"In the online world, everybody has their own domain, but in mobile, everyone's competing on everyone else's turf," says Jay Eum, cofounder of TransLink Capital, the venture capital firm that introduced Alibaba to Peel and has invested in two other Alibaba-backed startups, Quixey and Tango.

To some extent it's similar to the concurrent multifront competition in the U.S. among Amazon, Google and Facebook, and each of the three Chinese companies brings its own style. Tencent is the most quiet about its investments, reflecting the low-profile personality of its billionaire founder, Ma Huateng. Baidu focuses on research investment as well as direct funding in startups, a hybrid style similar to that of its U.S. inspiration, Google. The company is sinking $300 million into an R&D lab in Sunnyvale, Calif., the largest yet by any Chinese Internet company in California, run by Andrew Ng, cofounder of online educator Coursera and the man who set up Google's deep learning project.

"IN MOBILE, EVERYONE'S COMPETING ON EVERYONE ELSE'S TURF."

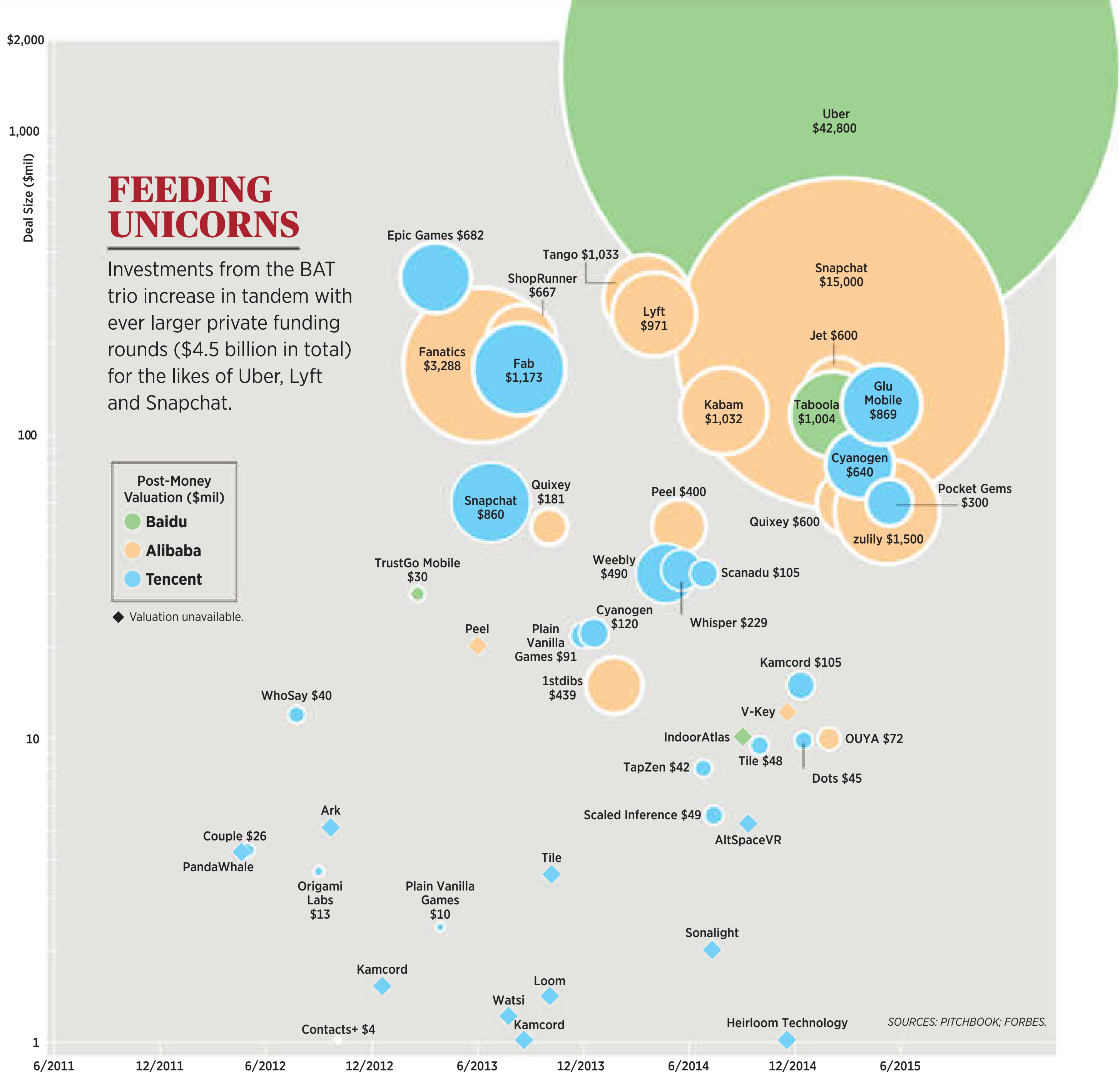
Meanwhile, Alibaba's venture unit operates much like its largest outside shareholder, Masayoshi Son's SoftBank. "There's always a strategic angle, but a certain level of investment returns is the bottom line," says TransLink's Eum. Alibaba's Jack Ma saw how much SoftBank and Yahoo made from investing early in his firm—now he wants his own lottery ticket.

The competition among the three plays out in ways that often don't seem rational. Last December Baidu's chief financial officer, Jennifer Li, right-hand woman to its billionaire CEO, Robin Li, helped lead Baidu's roughly $200 million investment in Uber at a reported $41 billion valuation. A search engine buying into a car-hailing app doesn't make a ton of sense on paper. No matter,

ERIC MILLETTE FOR FORBES

FEEDING UNICORNS

Investments from the BAT trio increase in tandem with ever larger private funding rounds ($4.5 billion in total) for the likes of Uber, Lyft and Snapchat.

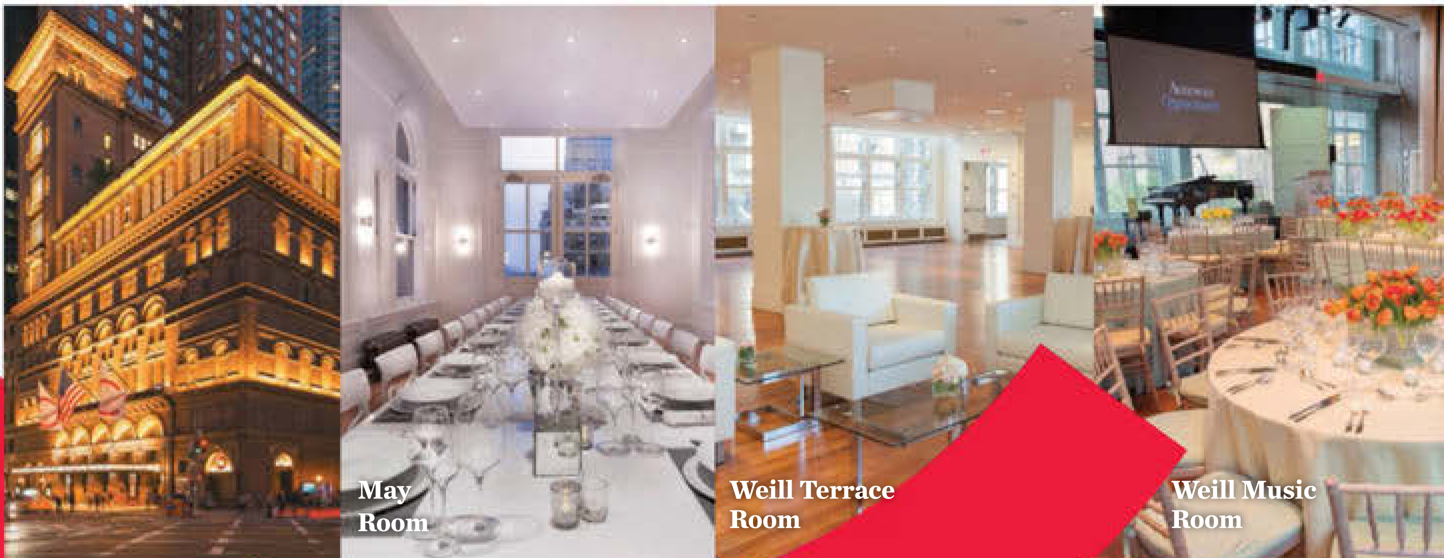


says Li: "Mobile development in China is exploding. Baidu's vision today is to connect people with services. Uber is an example of that."

Plus, she needed to respond to her two rivals. As Uber set foot in China, Tencent and Alibaba were already backing two Uber clones, Didi Dache and Kuaidi Dache, respectively. Now the Chinese can hail Uber on their phones through Baidu Maps. The search engine is also hoping to leverage Uber in Baidu Wallet's uphill battle against Alibaba's Alipay and Tencent's WeChat Payment. Not to be outflanked, Tencent and Alibaba merged their ride-share shops, creating a near monopoly worth $8.75 billion. And the battle rages on.

Kevin Chou could do that math. The CEO of San Francisco-based mobile-gaming startup Kabam hit the road in China for his latest funding round last spring, hopeful for access to that market. "Entering China is a pretty complicated affair," he says. "It operates in a very different fashion than any other market in the world because of such a strong presence of the major Chinese Internet players." For the next few months the 35-year-old Chinese-American, who cofounded his company in downtown Mountain View above a dim sum restaurant, sought out the BAT trio, among others, and ended up with five term sheets. "It's a lot of dinners, a lot of *baijiu*," grins Chou, referring to a potent Chinese liquor.

By July Kabam had its number—a valuation that shot it past the $1 billion "unicorn" threshold—from Alibaba,


May Room
Weill Terrace Room
Weill Music Room

which plunked down $120 million for just over a 10% stake, as well as instant credibility and relationships in China. "If you don't know who you're working with, you can really get yourself into trouble," says Chou.

Alibaba, for its part, paid the premium with a clear eye on Tencent, the world's largest gaming company, which has $7.2 billion in revenue from online gaming alone last year. The deal came with an initial commitment by Kabam to launch ten games during the next three years through Alibaba, including ones related to Hollywood blockbuster movies like *Lord of the Rings*, *Hunger Games* and *Fast and Furious*. Expect Alibaba to leverage its investment by using its PayPal clone, Alipay, for mobile micropayments and by promoting Kabam through the Alibaba-backed video site Youku Tudou.

"WHILE THEY CARE ABOUT THE FINANCIAL RETURNS, THE AMOUNT OF MONEY THEY PUT IN IS A ROUNDING ERROR."

"While they care about the financial returns, the amount of money they put into Kabam is a rounding error," says Chou. "They don't stress out anytime when there's a small problem." Alibaba even organizes an annual "Ali-family" party for its portfolio companies with the hope of fostering synergies. San Mateo-based ShopRunner, which raised $206 million from Alibaba in 2013, was one of the first partners of Alipay's ePass program, which enables U.S. retailers to sell directly to Chinese consumers. "It came up afterwards, after we started to understand more about each other," CEO Scott Thompson says. "Now it's obvious that there's something else we can do together, and it's likely to be a really interesting big business at some point."

Such synergies (and enormous valuations) make the BAT troika today's investors of choice. Silicon Valley used to look askance at money coming from a place where the central government blocks everything from Facebook to Gmail. "When Alibaba first invested, we took it with a huge grain of salt," says Peel's Krishnan. Now companies like Snapchat look eagerly to China—the disappearing-message app is reportedly raising $200 million from Alibaba, which again seems to be targeting Tencent, specifically its WeChat service. No matter that Snapchat is banned in China (or that Tencent also invested in a 2013 round).

"They're playing a global game of domination on the Internet," says Patrick Riley, founder and CEO of search engine Ark, for which Tencent participated in a $4.2 million seed round. "It goes entirely against the reputation, what the United States thinks of Chinese companies, which is just copy-paste." With BAT leading the trend, other tech companies, from mobile giant Xiaomi to Baidu rival Qihoo, are following in their footsteps with smaller deals. With the right bets in Silicon Valley, Chinese companies can redeploy the U.S. startups' technology and talent for their immediate next steps: expansion into other emerging economies such as India and Brazil. Eventually they'll grab a piece in the saturated American market.

"Everyone is competing on everything," says Kabam's Chou. Advantage, entrepreneurs. **F**

Additional reporting by Ryan Mac and Alex Konrad.

Kabam CEO Kevin Chou had his pick of Chinese money and took Alibaba's $120 million plus its promise to help him crack China's market.

TIMOTHY ARCHIBALD FOR FORBES

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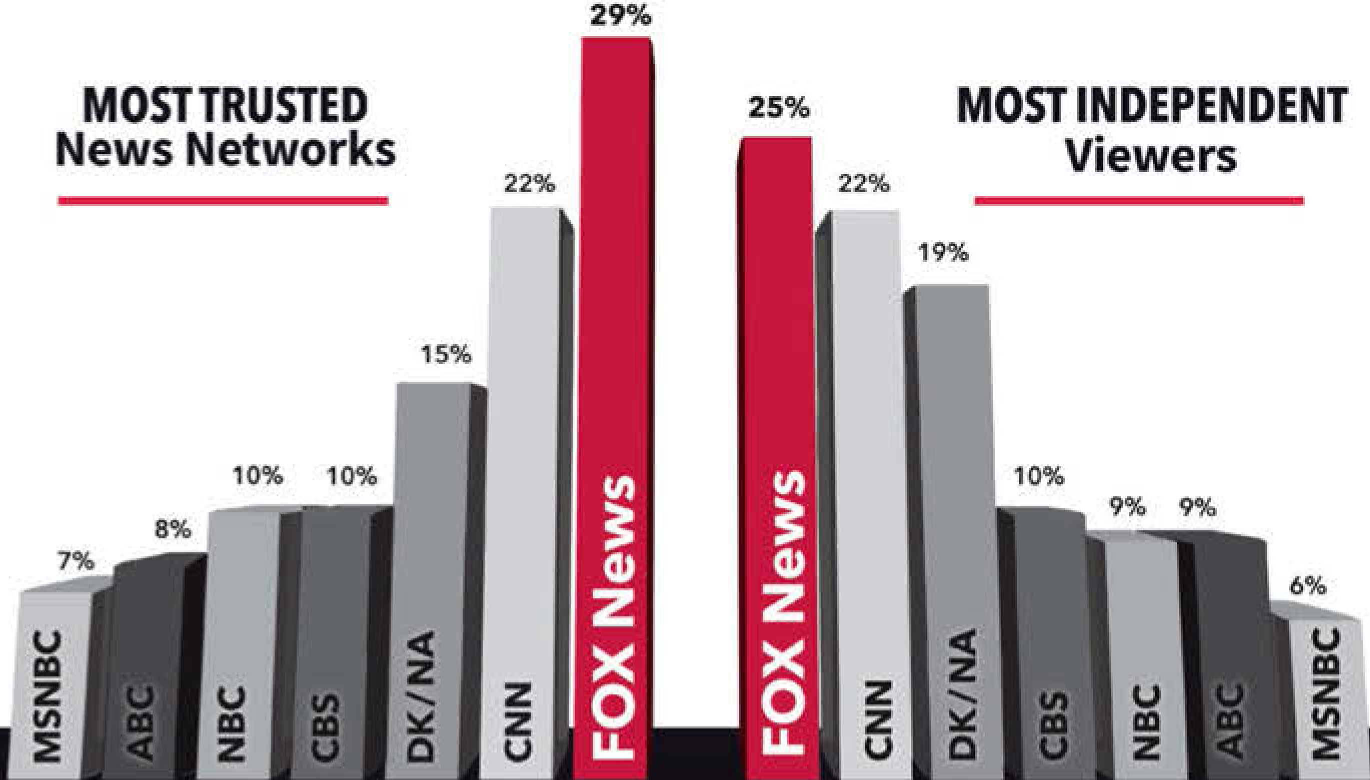

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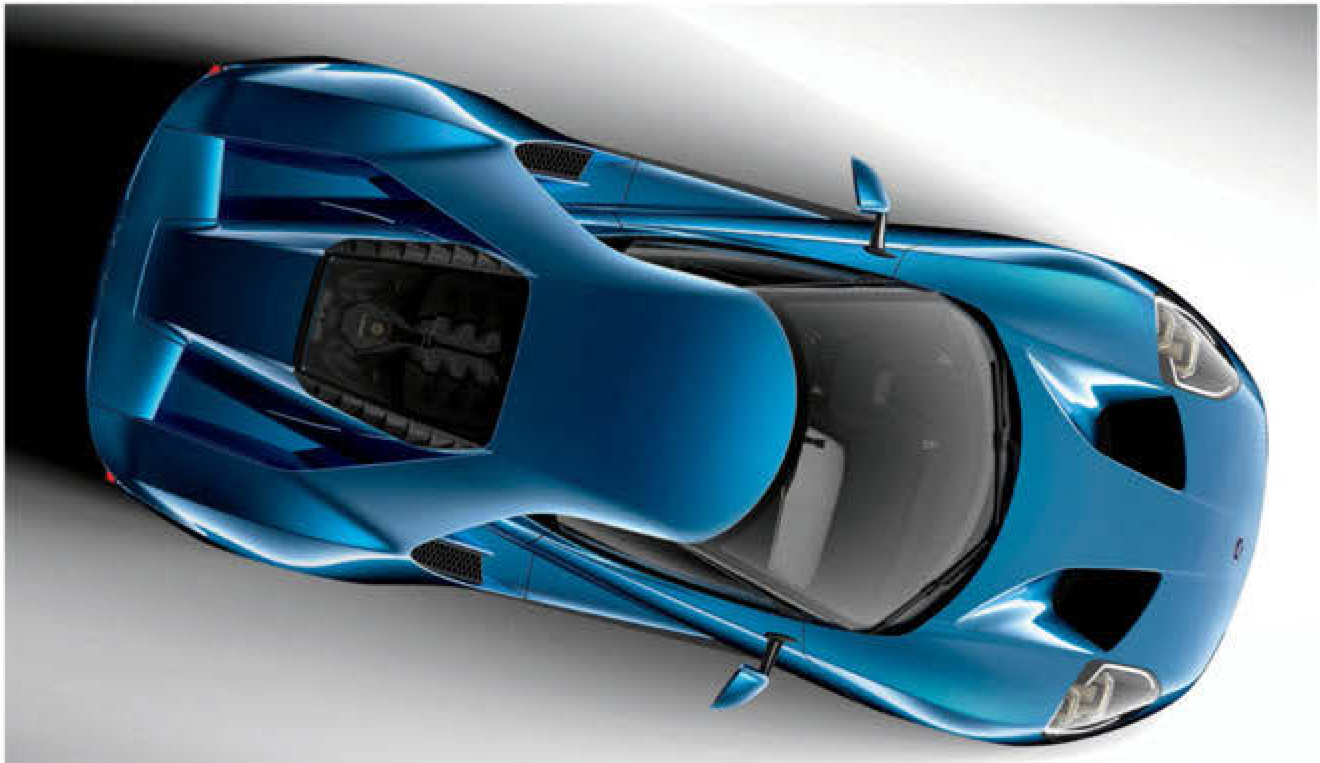

The Great American Supercar

With a rich racing history and classic design, the Ford GT has been steadily increasing in value—and a new model is on track for 2017.

BY ALLEN ST. JOHN

Bill Nelson wasn't looking for an investment, just a thrill. So nine years ago the then 64-year-old retired engineer from Asbury, N.J. went to his local Ford dealer and put down $160,000 to buy the fastest and most expensive production car the company had ever built, the Ford GT.

"I'm a lifelong Ford guy," he explains. "When I saw that car, I absolutely had to have one."

Owning America's first supercar has given Nelson more than his share of adrenalized drives on New Jersey's back roads. And one day it will potentially deliver an impressive return on his money.

Earlier this year another Ford GT—one bearing an early VIN of 003—brought an astonishing $605,000 at Barrett-Jackson's Scottsdale Auction. And lesser GTs routinely change hands for more than double their original sticker price. In fact, the GT is the only American production car built this millennium that's an appreciating classic rather than a fast, expensive used car.

It's not just 200mph top speeds but also escalating prices that separate true supercars—such as the Ferrari F40, the Porsche Carrera GT and the McLaren F1—from run-of-the-mill exotics, and the Ford GT has earned its membership in this exclusive club.

"Ford checked off all the right boxes," says Wayne Carini, owner of Connecticut's F40 Motorsports and the host of Velocity's *Chasing Classic Cars*. "It's an iconic car."

Buyers like Nelson aren't so much purchasing 3,400 pounds of superplastic aluminum as they are the story behind it. The GT is the successor to one of the greatest racing cars of all time, the Le Mans-winning GT40s of the late 1960s. The

Coming soon: The 2017 Ford GT will deliver 600-plus hp and is expected to have a base price near $400,000.

Le Mans legend: A 1968 Ford GT40 like this one was auctioned for $11 million in 2012.

GT40 project was launched by Henry Ford II, who felt betrayed after Enzo Ferrari backed out of a deal to sell him his company. Beating the Ferraris at their own game, the GT40s competed during the sport's Golden Age, when race-winning cars could actually be driven on the street. But there were only 31 street-legal GT40s back then, and they've since become all-but-unobtainable rarities, with multimillion-dollar price tags.

The second-generation GT carried a different sort of mandate from CEO Bill Ford: a halo car that would commemorate the company's centennial in 2003. And, of course, help sell Mustangs in the process. Engineering manager Fred Goodnow was charged with producing three production-ready cars—red, white and blue—in a mere 15 months.

The first prototype (code name Petunia) was striking but too generic. "People thought it was the new Acura," Goodnow recalls. After that disappointing feedback a visiting Ford exec pointed to the original GT40 sitting in Ford's design studio and provided the lightbulb moment. "It's got to look like that."

Which created its own set of challenges. "If you screw it up, everyone in the world is going to be upset with you," explains the GT's chief designer, Camilo Pardo.

But the gamble paid off a couple years later with a fresh-but-familiar shape that landed the muscular GT on every car geek's want list, including early adopters Jay Leno and then *Top Gear* host Jeremy Clarkson. "They just really captured the essence of the original," says Peter Klutt of Canada's Legendary Motorcar Co., who has sold dozens of GTs and owns an original GT40 road car. "And that's a big deal."

Pure sex appeal is one factor in the GT's unexpected success, but so is simple supply and demand. Ford built only 4,038 second-generation GTs, a production run big enough for a cult following but small enough to avoid a market glut. "It's not super-rare, but it's significant and cool," says Klutt. "Just like a [Mercedes] Gull-wing 300SL, every major collection has one."

Earlier this year at the Detroit Auto Show Ford appeared to have captured that lightning-in-a-chassis again with a third-generation 2017 GT. The company is considering racing at Le Mans on the 50th anniversary of the GT40's first win there, and Ford will also produce 250 street versions at a list price of around $400,000. Designed to compete with six-figure dream cars like the McLaren P1, La Ferrari, Porsche 918 and Bugatti Veyron, the V-6 powered third-gen GTs will likely be snapped up in an instant.

"The newer car is less true to the original," says Klutt. "But the market will say if it's a great collectible or not."

Barrett-Jackson CEO Craig Jackson, a GT owner himself, believes that the massive excitement around the new GT, which will be released late next year, will continue to boost prices for second-gen cars as they cross the auction block: "I think the anticipation of the next-generation car coming out at three times the sticker price is a big factor."

How high can the market for 2005-06 GTs go? "Even at the prices they're commanding today, the bang for the buck is fantastic," argues Carini. "I wouldn't say that a million dollars is out of the question in 15, 20 years."

Will that impressive run-up encourage Bill Nelson to flip his red GT for a six-figure profit? Probably not. "It's there, but I'm not tempted," he laughs. "What would I drive?" *

HUBERT FANTHOMME / PARIS MATCH VIA GETTY IMAGES (LEFT)

TRENDING

What the 70 million Forbes.com users are talking about. For a deeper dive go to FORBESLIFE.COM

PERSON
ERIC CLAPTON
The guitar god auctioned part of his watch collection in May, setting a record for a Rolex: $1.4 million for an "Oyster Albino."

COMPANY
ROLLS-ROYCE
The British automaker announced a new dawn is coming—the Rolls-Royce Dawn, a drophead convertible set to debut in early 2016.

IDEA
SOMMELIER IN RESIDENCE
A new condominium in Bethesda, Md. is offering tenants a lavish perk: In addition to wine-storage units for every resident, the building comes with its own master sommelier.

FINAL THOUGHT

"Any customer can have a car painted any color that he wants, so long as it is black." —**HENRY FORD**


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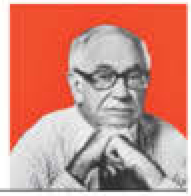
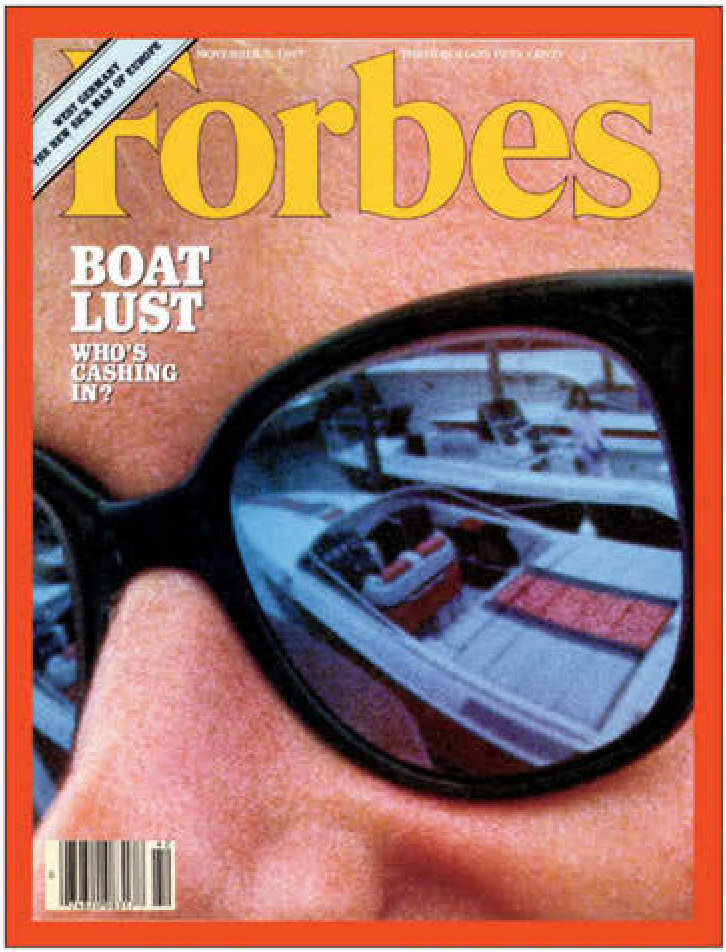
THOUGHTS

FINAL THOUGHT

"Perhaps it's not an exaggeration to say that from [Forbes yacht] Highlander *conversations were generated more articles than from any other ship since Noah's Ark."*
—MALCOLM FORBES





"America's current prosperity has been fueled by tax cuts and the most exuberant consumer spending in history. Surfeited with other consumer goods, affluent Americans have turned increasingly to buying boats. On easy—very easy—credit, of course. At marinas across the country the shortage of docking space has produced long waiting lists of boat owners looking for somewhere to tie up."

—FROM THE NOV. 2, 1987 ISSUE OF FORBES

OTHER THOUGHTS FROM THAT ISSUE:

KAPUT! *"The Germans have a wonderful word for it:* Erneuerungsenergie, *the energy of economic renewal. France has Erneuerungsenergie. So do Italy, Spain, Britain—and, of course, the U.S. and Japan. Who doesn't have it? West Germany. The one-time workshop miracle has become one of Western Europe's most sluggish economies."*

THE LAUGHER CURVE *"Researchers have found a connection between a well-developed sense of humor and problem-solving. Boston University professor Joseph Boskin, who teaches a course on humor in 20th-century America, says humorous people are usually wiser and have broader perspectives. And they are often better workers."*

ON BOATING

"You are moving at racing speed, parting the buttery sea as with a scalpel, and waters roar by, themselves exuberantly subdued by your powers."
—WILLIAM F. BUCKLEY JR.

"I love to sail forbidden seas, and land on barbarous coasts." **—HERMAN MELVILLE**

"Money can't buy you happiness, but it can buy you a yacht big enough to pull up right alongside it."
—DAVID LEE ROTH

"We of the sea come to know each other quickly: Our loves, like our hates, are born of sudden dangers." **—LEW WALLACE**

"The goal is not to sail the boat, but to help the boat sail herself."
—JOHN ROUSMANIERE

"The waters increased and lifted up the ark, and it rose high above the earth." **—GENESIS 7:17**

"If you're a sailor, best not know how to swim. Swimming only prolongs the inevitable—if the sea wants you and your time has come."
—JAMES CLAVELL

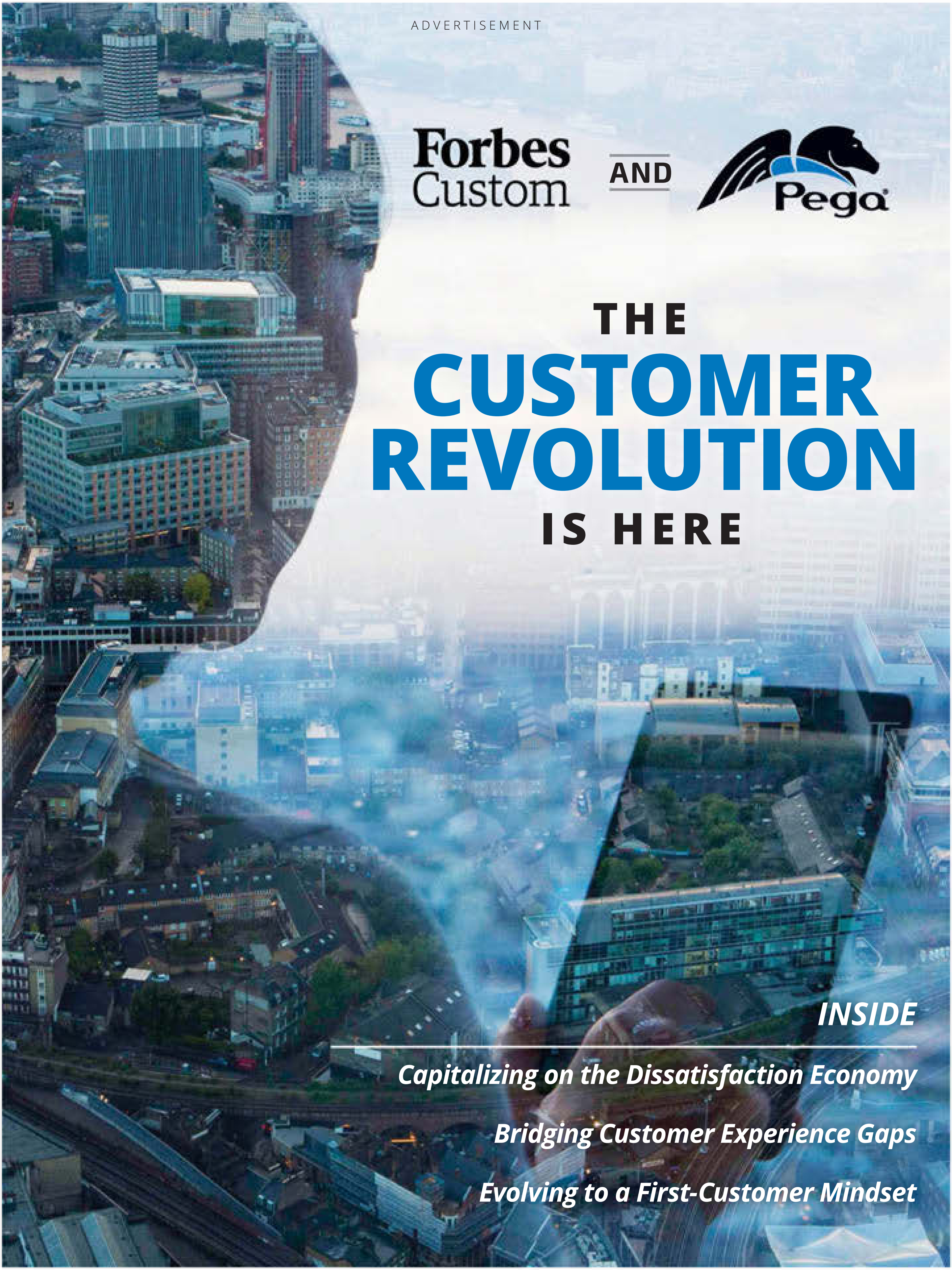
"As soon as you set foot on a yacht you belong to some man, not to yourself, and you die of boredom." **—COCO CHANEL**

"How do men act on a sinking ship? Do they hold each other? Do they pass around the whisky? Do they cry?" **—SEBASTIAN JUNGER**

"The cure for anything is saltwater: sweat, tears or the sea."
—ISAK DINESEN

"Hark, now hear the sailors cry, smell the sea and feel the sky, let your soul and spirit fly into the mystic." **—VAN MORRISON**

SOURCES: THOUGHTS ON A FINAL PASSAGE, BY WILLIAM F. BUCKLEY JR.; MOBY-DICK, BY HERMAN MELVILLE; TAI-PAN, BY JAMES CLAVELL; BEN-HUR: A TALE OF THE CHRIST, BY LEW WALLACE; THE PERFECT STORM, BY SEBASTIAN JUNGER; THE SAILING LIFESTYLE, BY JOHN ROUSMANIERE.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INSIDE
Capitalizing on the Dissatisfaction Economy
Bridging Customer Experience Gaps
Evolving to a First-Customer Mindset

Capitalizing on the Diss

Companies may refer to losing customers as "churn rate," but for customers it's simply the end of the relationship. They switch with a few clicks and often for reasons that the company could have avoided by evolving their customer service around the needs of today's always-connected consumers. This can have significant implications on the bottom line:

- Accenture estimates that this "Switching Economy" puts up to $5.9 trillion of global revenue up for grabs; $1.3 trillion in the U.S. alone.
- *Harvard Business Review* reports that acquiring a new customer is from five to 25 times more expensive than retaining an existing customer.
- Research from Bain & Company indicates that increasing customer retention rates by just 5% can increase profits from 25% to 95%.

Rising Customer Frustration

Disconnected organizational goals and silos are the root of the problem. Forrester reports that the customer experience gap is a "result of years of mismatched motivations between customer teams and technology teams."

The critical moment is the first time a customer raises an issue. According to Accenture, 80% of customers said they would not have switched providers if their issue had been resolved on first contact. Despite their dissatisfaction, some customers do stay. But as issues go unresolved—or poorly resolved with quick fixes and multiple workarounds—their frustration builds.

> **"Both enterprises and customers see the same problem. What has to change is corporate culture and systems."**
>
> *—Robert Tas*
> *SVP, Chief Marketing Officer, Pega*

Corporations are taking notice. They're amplifying their attention to customer satisfaction and shifting positive customer experiences to the top of their priority list. Gartner reports that 89% of business leaders believe customer experience will be their primary basis for competition.

Why Can't You Be More Like Uber?

"In both corporate boardrooms and in talking to consumers, we hear a common question: 'Why can't our company be more like Amazon, Zappos or Uber?'" said Robert Tas, SVP and Chief Marketing Officer at Pega, who also serves on the boards of the Association of National Advertisers, the Ad Council and the Mobile Marketing Association.

atisfaction Economy

"We are at an inflection point. Both enterprises and customers see the same problem and same opportunity. What has to change is corporate culture and systems," said Tas.

Despite an abundance of data, companies are blind to what their customers really want, even as they prioritize customer experience over other enterprise initiatives. There is a great chasm between customer expectations and corporate goals.

Jim Bush, EVP World Service at American Express, made an emphatic point that today's customers benchmark their experiences across multiple industries. It's no longer good enough to be the leader in just your category.

Customer Expectations vs. Legacy Realities

Despite an already sterling reputation, American Express wanted to do even more to improve customer experience. Through their strategic initiative, "Relationship Care," American Express looked at everything through the eyes of their customers, adjusting performance KPIs and technology to support their new mission. Customer satisfaction scores have tripled, demonstrating the impact of aligning not just process, but corporate culture, around their customers.

Don Schuerman, CTO and VP Product Marketing at Pega, observed that his company's global clients are taking similar steps, recognizing that the business objectives and systems driving most global companies were created to serve outdated purposes.

"There is an inherent internal conflict," he explained. "Marketers keep pushing batch-and-blast offers to meet short-term goals. Call centers are working to get people off the phone faster to meet average handling time goals. The customer's needs are ignored."

Aligning the culture, process and technology toward a better customer experience results in a measurable impact to brand differentiation and market share. It's what happens when you treat every customer as if she was your "first customer." ■

> "It's no longer good enough to be the best in a particular industry, you need to be the best in the world."
>
> *—Jim Bush*
> *EVP, World Service, American Express*

FIRST-CUSTOMER THINKING FOR NEW ACCOUNTS

OCBC Bank in Singapore, ranked as one of the world's strongest banks by Bloomberg, has put first-customer thinking into action. Their process for a customer to open a new account had ballooned to 150 tasks with a heavy reliance on paper forms. Customer abandonment and costs were high. Satisfaction scores were low.

Instead of a quick fix by adding new digital tools to the old process, OCBC took a step back and re-architected the experience around the customer. From bank design to software to how customers and bankers work together, everything was viewed through the customer lens.

Today, 150 tasks have been collapsed. A shared-screen experience enables the customer and banker to work side-by-side from the start. The experience is guided, so every progressive step is personalized to the customer's needs.

Account activations and their Net Promoter Score have risen significantly. The approach is now a major selling point and differentiator for OCBC.

Bridging Customer Experience Gaps

In today's interactions, no two words are more critical to a customer's experience than context and relevance. "Personalized interaction data creates context," writes Forrester's Carlton A. Doty in his report, "The Power of Customer Context." Proprietary algorithms "will enable the application of machine learning to customer interactions, using the context of the moment to proactively guide the customer to the next best interaction."

Rob Walker, VP Decision Management & Analytics at Pega, has spent the past 20 years advising global enterprises in predictive analytics. He observed that companies that are truly focused on the customer take a fundamentally different approach to the customer experience. He witnessed this in the European mobile industry, which was suffering from churn rates close to 40%.

"Not only are we retaining the right customers, we're retaining more of them and growing their value while we do it."

—Suzanne Woolley
Head of Customer Base Management, EE

"These companies saw that the old model was not working. They changed everything from corporate culture to goals and technology. Today's KPIs focus on retention, satisfaction and lifetime value," Walker said, noting that their work has paid off in higher satisfaction scores and retention rates.

A large part of their initiative was ensuring that customer-facing marketing programs were synched to back-end business operations. This created a unified customer experience based on the real-time needs of each customer. It eliminated the disconnected "you don't really know me" customer experiences.

EE, the largest and most advanced digital communications company in Britain, has taken significant steps to truly understand its customers. Suzanne Woolley, Head of Customer Base Management at EE, said context is crucial.

"You can never really, truly understand customer context in an outbound push conversation. There's no two-way conversation with the customer and you can't react to new context and new information that the customer gives you," she said.

EE's use of predictive analytics and next-best-action offers have enabled the company to quadruple the number of accepted sales offers, triple retained customer value and substantially reduce subscriber retention costs.

Technology that leverages data from transactions, interactions, products, call center inquiries, location and other inputs to learn, refine and personalize responses for each customer, drives enhanced experiences. Forrester's Doty describes the approach as a "Contextual Marketing Engine" that flips traditional CRM upside down. Enterprises anticipate customers' needs rather than react, enabling them to deliver value in the moment. ■

4 Points to Keep in Mind When Evolving to a First-Customer Mindset

Companies that have taken the biggest steps to enhance overall customer experience generally follow a four-step process

1 | Ensure That Customer Ownership Starts at the C-level

From corporate boards to the CEO, the emphasis on customer experience starts from the top. Instead of a fragmented approach to customer experience, companies are increasingly assigning a C-level Experience Officer role to ensure that the customer has a senior-level advocate who can keep the company honest and apply metrics to the discipline.

Momentum for customer experience initiatives "must start at the top of the organization and permeate throughout it—the entire C-suite must be committed to work in a highly collaborative manner toward shared goals," Accenture writes in its digital transformation series.

2 | Think First Customer, Not Customer First

With an executive mandate, the next step is to re-architect internal culture to make every decision through the eyes of the customer, treating each one as if she was your first customer. One global telecom company created a war room for the better part of a year where stakeholders met every day to align on goals, programs and budgets. As part of its "Relationship Care" initiative, American Express created a new mission and new KPIs around elevating how it cares for customers.

3 | Liberate Your Process

Enterprises are also deconstructing internal processes to eliminate both gaps and barriers. While it's easy to talk "seamless" and "frictionless," achieving it means re-architecting business rules and workflow to connect customer-facing front-end experiences (websites, apps, call centers, stores) with back-end enterprise operations. A divide between the two creates substandard experiences. The cohesiveness of those functions creates what customers love about Amazon and Uber.

4 | Unify Experiences with the Right Technology

At a technology level, enterprises are adopting solutions that either bridge or replace legacy "customer of record" systems and offer-based CRM systems. They are also resisting the temptation of what Pega CTO Don Schuerman terms "shiny toys"—cloud applications and platforms that are designed to be easy but "collapse under the weight of complexity." Instead, they are turning to technology that connects complex data, workflow and business process across the enterprise, from marketing to customer service and operations. ■

SAFELITE APP CONNECTS CUSTOMERS WITH SERVICE REPS AND TECHNICIANS

Safelite AutoGlass is the leading provider of vehicle glass repair and replacement services to more than 96% of U.S. drivers in all 50 states. Its contact centers handle more than 40,000 calls each day.

To serve its customers better, Safelite developed a mobile application to "treat every customer as if they were the only customer they will serve that day." The application streamlines coordination between customers, customer service reps and technicians who provide service in the field. Both technicians and customers had a role in its design.

The app gives technicians information needed to make repairs, including maps to the customer's location. Customers get transparency into the status of their request. They confirm the work order online, get a message on the technician's expected arrival time and sign to complete the process on the technician's mobile device.

The app has created cost savings by eliminating paper forms and has given Safelite greater flexibility in adjusting work repair orders on the fly. It also gives customers a more consistent experience that has raised Safelite's Net Promoter Score from 73 to 86.